

Houghton Lake
Community
Schools
Houghton Lake,
Michigan



Year Ended
June 30, 2021

Financial
Statements and
Single Audit Act
Compliance

Rehmann

HOUGHTON LAKE COMMUNITY SCHOOLS

For the Year Ended June 30, 2021

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HOUGHTON LAKE COMMUNITY SCHOOLS

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Independent Auditors' Report

October 19, 2021

Board of Education
Houghton Lake Community Schools
Houghton Lake, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the remaining fund information of **Houghton Lake Community Schools** (the "District"), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Independent Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the remaining fund information of the District, as of June 30, 2021, and the respective changes in financial position thereof, and the budgetary comparison for the general fund and food service special revenue fund for the year ended June 30, 2021 in accordance with accounting principles generally accepted in the United States of America.

Implementation of GASB Statement No. 84

As described in Note 20, the District implemented the provisions of GASB Statement No. 84, *Fiduciary Activities*, in the current year. Accordingly, beginning fund balance of the student/school activity special revenue fund and the net position of governmental activities were restated. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the schedules for the pension and other postemployment benefit plans, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The schedule of outstanding bonded indebtedness is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of outstanding bonded indebtedness is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2021, on our consideration of the 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Lehmann Lobson LLC". The signature is written in a cursive, flowing style.

MANAGEMENT'S DISCUSSION AND ANALYSIS

HOUGHTON LAKE COMMUNITY SCHOOLS

Management's Discussion and Analysis

This section of the annual financial report presents management's discussion and analysis of Houghton Lake Community School's (hereon referred to as the "District") performance during the fiscal year ending June 30, 2021. Please read this along with the financial statements of the District, which immediately follow this section.

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the District's finances as a whole.

Financial Highlights

• Total net position	\$ (23,272,227)
• Change in total net position	2,705,907
• Fund balances, governmental funds	2,084,393
• Change in fund balances, governmental funds	1,550,080
• Change in fund balance, general fund	1,388,076
• Installment debt outstanding	3,369,713
• Change in installment debt	(436,373)
• Capital assets, net	7,571,345

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components:

1. Government-wide Financial Statements
2. Fund Financial Statements
3. Notes to the Financial Statements

This report also contains other required supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to the private business sector.

The *statement of net position* presents information on all of the District's assets, deferred outflows of resources, liabilities and deferred inflows of resources with the residual balance reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

HOUGHTON LAKE COMMUNITY SCHOOLS

Management's Discussion and Analysis

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the District include instruction, supporting services, food service, and community service. The District has no business-type activities as of and for the year ending June 30, 2021.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Like other state and local governments, the District uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. All of the funds of the District are reported as governmental funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. Readers may better understand the long-term impact of the government's near-term financing decisions by doing it this way. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provides a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the food service special revenue fund, and the 2017 refunding bonds debt service fund, which are the District's major funds. Data from the other nonmajor governmental fund is aggregated together and shown in the nonmajor governmental funds column.

The District adopts an annual appropriated budget for its general and special revenue funds. The budgetary comparison statement has been provided herein to demonstrate compliance with the general fund budget.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

HOUGHTON LAKE COMMUNITY SCHOOLS

Management's Discussion and Analysis

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. This is limited to this management's discussion and analysis and the schedules for the MPERS pension and other postemployment benefit plans immediately following the notes to the financial statements.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$23,272,227 at the close of the most recent fiscal year.

	Net Position	
	2021	2020
Assets		
Current and other assets	\$ 3,758,178	\$ 6,101,643
Capital assets, net	7,571,345	6,317,118
	<u>11,329,523</u>	<u>12,418,761</u>
Deferred outflows of resources	<u>7,093,449</u>	<u>9,572,096</u>
Liabilities		
Current and other liabilities	1,694,577	5,684,150
Long-term liabilities	3,761,224	4,256,203
Net pension liability, due in more than one year	26,173,379	27,729,985
Net other postemployment benefits liability, due in more than one year	3,890,118	5,854,740
	<u>35,519,298</u>	<u>43,525,078</u>
Deferred inflows of resources	<u>6,175,901</u>	<u>4,601,682</u>
Net position		
Net investment in capital assets	4,133,104	2,434,676
Restricted	833,353	667,899
Unrestricted (deficit)	<u>(28,238,684)</u>	<u>(29,238,478)</u>
Total net position	<u><u>\$ (23,272,227)</u></u>	<u><u>\$ (26,135,903)</u></u>

The largest portion of the District's net position reflects its investment in capital assets (i.e., land, site improvements, buildings and improvements, machinery and equipment and transportation equipment), less accumulated depreciation. The District uses these capital assets to provide services to the students; consequently, these assets are not available for future spending. The District's investment in its 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.

The District's current and other assets decreased \$2,343,465 due to no state aid anticipation note required. The District's current and other liabilities decreased \$3,989,573 from the previous year due to budget reduction measures taken.

HOUGHTON LAKE COMMUNITY SCHOOLS

Management's Discussion and Analysis

Long-term liabilities, which include general obligation bonds and an installment purchase agreement used to finance acquisition of capital assets, were reduced by the normal scheduled principal payments during the year. The general obligation bonds will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net position is reported to show legal constraints which limit use of some of the assets. Debt covenants and legislation limit the District's ability to use that net position for day-to-day operations.

The net position represents the accumulated results of all past years' activities. This amount will be affected by the year-to-year combined operations. The summary of the years' activity for the District as a whole are reported below.

The District's net position increased by \$2,705,907 during the 2020-2021 school year, compared to a decrease of \$2,318,729 during the 2019-2020 school year.

	Change in Net Position	
	2021	2020
Program revenues		
Charges for services	\$ 135,669	\$ 187,128
Operating grants and contributions	5,877,833	5,514,099
General revenues		
Property taxes	9,005,267	8,613,423
Unrestricted state aid	1,715,261	1,891,681
Other	3,419	41,510
Total revenues	<u>16,737,449</u>	<u>16,247,841</u>
Expenses		
Instruction	8,677,302	9,695,463
Supporting services	4,134,626	7,354,211
Food service	781,174	918,186
Community service	32,790	211,133
Interest on long-term debt	111,162	121,406
Unallocated depreciation	294,488	266,171
Total expenses	<u>14,031,542</u>	<u>18,566,570</u>
Change in net position	2,705,907	(2,318,729)
Net position		
Beginning of year	(26,135,903)	(23,817,174)
Restatement for implementation of GASB 84	157,769	-
End of year	<u>\$ (23,272,227)</u>	<u>\$ (26,135,903)</u>

The differences seen above, between 2020-2021 and 2019-2020 revenues is mostly due to an increase in operating grants and contributions and property taxes of \$363,734 and \$391,844, respectively, from the prior year, offset by a decrease in unrestricted state aid of \$176,420 due to a decrease in student count. The decrease in expenses from the prior year is mainly due to the decreases in instruction and supporting services of \$1,018,161 and \$3,219,585, respectively, due to the deficit elimination plan.

HOUGHTON LAKE COMMUNITY SCHOOLS

Management's Discussion and Analysis

Financial Analysis of the Government's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental funds. The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the District's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$2,084,393. In addition to unassigned, fund balance consists of nonspendable, restricted or committed to indicate that it is not available for new spending because the underlying assets are included in inventory or prepaids and are not available for current expenditure, or it is constrained by externally or internally imposed restrictions. At the end of the current fiscal year, \$211,047 is nonspendable for inventory and prepaids, \$472,829 is restricted for debt service and \$293,236 is restricted for the food service program, \$157,914 is committed for the forestry contract classroom project and student/school activity. The remaining fund balance of \$949,367 is unassigned.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, the total fund balance was \$1,077,813, of which \$122,967 was nonspendable, and \$5,479 was committed. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents approximately 6.9 percent of general fund expenditures. The District had an unassigned fund balance of \$949,367 at year-end.

The fund balance of the District's general fund increased \$1,388,076 during the current fiscal year. This is primarily attributable to the execution of the deficit elimination plan.

The fund balance of the District's food service special revenue fund remained consistent, increasing \$23,792 during the current fiscal year.

The fund balance of the District's 2017 refunding bonds debt service fund increased \$143,546 during the current fiscal year. This is primarily attributable to the current debt millage rate being levied.

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was actually adopted at year end. A statement showing the District's general fund original and final budget amounts compared with amounts actually incurred is provided with the governmental fund section in these financial statements.

The original budget is adopted by the school board before the start of the District's fiscal year and amendments are adopted throughout the year when better information becomes available. The difference between the two relates mainly to adjustments made in taxes, state and federal revenue, benefits, staffing, and general expenditures throughout the course of the year. Once the adjustments are known, the budget is adjusted accordingly.

Actual total revenues were over the final amended budget by \$408,364 mainly due to state sources and federal sources being over budget by \$158,162 and \$191,536, respectively. This was a result of additional grants received.

HOUGHTON LAKE COMMUNITY SCHOOLS

Management's Discussion and Analysis

Actual total expenditures were under the final amended budget by \$596,282. The significant fluctuations between actual and budgeted expenditures are as follows:

- Instructional staff expenditures were under budget by \$160,925 due to various additional staff leaves that resulted in savings.
- Business office expenditures were under budget by \$76,901 due to reverse entry on accrued interest, interest on tax notes.
- Operation and maintenance expenditures were under budget by \$143,610 due to delay in project completions.
- Pupil transportation expenditures were under budget by \$107,078 due to savings on fuel, parts and labor.

The original budget resulted in a negative change in fund balance of \$479,014, resulting in a budgeted deficit, whereas the final budget resulted in a positive change of \$403,444. The significant fluctuations between original and final budget are as follows:

- Taxes increased \$285,878 from original to final budget due to additional information received.
- State revenues increased \$392,178 from original to final budget due to increase in state per pupil funding.
- Federal revenues increased \$601,955 from original to final budget due to federal grant allocations.
- Basic programs expenditures increased \$902,424 from original to final budget due to staffing levels and grants received.
- Added needs expenditures decreased \$601,614 from original to final budget due to reductions in staffing as approved along with staffing changes between grants and function codes.
- Instructional staff expenditures increased \$116,237 from original to final budget due to increased Title professional development.

Capital Assets

As of June 30, 2021, the District had \$7,571,345 in net capital assets including site improvements, buildings and improvements, machinery and equipment, and transportation equipment.

	Capital Assets (net of depreciation)	
	2021	2020
Site improvements	\$ 1,496,595	\$ 1,496,595
Buildings and improvements	15,281,476	14,541,358
Machinery and equipment	3,612,514	2,829,994
Transportation equipment	1,938,453	1,668,348
	<u>22,339,741</u>	<u>20,536,295</u>
Less accumulated depreciation	<u>(14,768,396)</u>	<u>(14,219,177)</u>
Total capital assets, net	<u>\$ 7,571,345</u>	<u>\$ 6,317,118</u>

The increase of \$1,254,227 from June 30, 2020 to June 30, 2021 is attributable to the current year additions of \$1,872,890, offset by depreciation expense of \$616,704. Additional information on the District's capital assets can be found in the notes to the financial statements.

HOUGHTON LAKE COMMUNITY SCHOOLS

Management's Discussion and Analysis

Long-term Debt

The long-term obligations for the District decreased from \$4,256,203 at June 30, 2020 to \$3,761,224 at the end of June 30, 2021. The total decrease of \$494,979 is mainly the result of the scheduled payments made on the outstanding debt issuance.

Additional information on the District's long-term debt can be found in the notes to financial statements.

Economic Factors and Next Year's Budget and Rates

The following factors were considered in preparing the District's budget for the 2021-2022 fiscal year:

- Enrollment being flat
- Staffing levels, step and education attainment
- 2021-22 contracts for staff
- Health insurance costs for 2021-22
- Retirement rate payment to ORS
- 2021-22 per pupil funding amount

Requests for Information

This financial report is designed to provide our 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 information, contact the Business Office, Houghton Lake Community Schools, 4433 W. Houghton Lake Drive; Houghton Lake, MI 48629.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

HOUGHTON LAKE COMMUNITY SCHOOLS

Statement of Net Position

June 30, 2021

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 1,002,806
Investments	1,163,116
Receivables	1,381,209
Inventories	131,101
Prepays	79,946
Capital assets not being depreciated	10,703
Capital assets being depreciated, net	<u>7,560,642</u>
Total assets	<u>11,329,523</u>
Deferred outflows of resources	
Deferred charge on bond refunding	82,388
Deferred pension amounts	5,300,317
Deferred OPEB amounts	<u>1,710,744</u>
Total deferred outflows of resources	<u>7,093,449</u>
Liabilities	
Accounts payable and accrued liabilities	1,622,260
Unearned revenue	72,317
Long-term debt:	
Due within one year	507,479
Due in more than one year	3,253,745
Net pension liability, due in more than one year	26,173,379
Net other postemployment benefits liability, due in more than one year	<u>3,890,118</u>
Total liabilities	<u>35,519,298</u>
Deferred inflows of resources	
Deferred pension amounts	2,279,413
Deferred OPEB amounts	<u>3,896,488</u>
Total deferred inflows of resources	<u>6,175,901</u>
Net position	
Net investment in capital assets	4,133,104
Restricted for:	
Food service	381,316
Debt service	452,037
Unrestricted (deficit)	<u>(28,238,684)</u>
Total net position	<u>\$ (23,272,227)</u>

The accompanying notes are an integral part of these basic financial statements.

HOUGHTON LAKE COMMUNITY SCHOOLS

Statement of Activities

For the Year Ended June 30, 2021

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Governmental activities:				
Instruction	\$ 8,677,302	\$ -	\$ 4,880,766	\$ (3,796,536)
Supporting services	4,134,626	96,074	155,245	(3,883,307)
Food service	781,174	39,595	841,822	100,243
Community service	32,790	-	-	(32,790)
Interest on long-term debt	111,162	-	-	(111,162)
Unallocated depreciation	294,488	-	-	(294,488)
Total	<u>\$ 14,031,542</u>	<u>\$ 135,669</u>	<u>\$ 5,877,833</u>	<u>(8,018,040)</u>
General revenues:				
Property taxes				9,005,267
Unrestricted state aid				1,715,261
Unrestricted investment earnings				<u>3,419</u>
Total general revenues				<u>10,723,947</u>
Change in net position				<u>2,705,907</u>
Net position (deficit), beginning of year, as restated				<u>(25,978,134)</u>
Net position (deficit), end of year				<u>\$ (23,272,227)</u>

The accompanying notes are an integral part of these basic financial statements.

FUND FINANCIAL STATEMENTS

HOUGHTON LAKE COMMUNITY SCHOOLS

Balance Sheet

Governmental Funds
June 30, 2021

	General Fund	Food Service Special Revenue Fund	2017 Refunding Bonds Debt Service Fund	Student/School Activity Nonmajor Special Revenue Fund	Totals
Assets					
Cash and cash equivalents	\$ 378,993	\$ (3,244)	\$ 472,756	\$ 154,301	\$ 1,002,806
Investments	841,954	321,162	-	-	1,163,116
Accounts receivable	1,492	1,864	-	-	3,356
Due from other governmental units	1,317,538	60,315	-	-	1,377,853
Due from other funds	-	-	73	-	73
Inventories	115,021	16,080	-	-	131,101
Prepays	7,946	72,000	-	-	79,946
Total assets	\$ 2,662,944	\$ 468,177	\$ 472,829	\$ 154,301	\$ 3,758,251
Liabilities					
Accounts payable	\$ 82,399	\$ 86,861	\$ -	\$ 1,866	\$ 171,126
Salaries and benefits payable	1,430,342	-	-	-	1,430,342
Due to other funds	73	-	-	-	73
Unearned revenue	72,317	-	-	-	72,317
Total liabilities	1,585,131	86,861	-	1,866	1,673,858
Fund balances					
Nonspendable	122,967	88,080	-	-	211,047
Restricted	-	293,236	472,829	-	766,065
Committed	5,479	-	-	152,435	157,914
Unassigned	949,367	-	-	-	949,367
Total fund balances	1,077,813	381,316	472,829	152,435	2,084,393
Total liabilities and fund balances	\$ 2,662,944	\$ 468,177	\$ 472,829	\$ 154,301	\$ 3,758,251

The accompanying notes are an integral part of these basic financial statements.

HOUGHTON LAKE COMMUNITY SCHOOLS

Reconciliation

Fund Balances for Governmental Funds
to Net Position of Governmental Activities
June 30, 2021

Fund balances - total governmental funds \$ 2,084,393

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 in the funds.

Capital assets not being depreciated	10,703
Capital assets being depreciated, net	7,560,642

Certain pension and OPEB-related amounts, such as the net pension and OPEB liabilities and related deferred amounts are not due and payable in the current period or do not represent current financial resources and therefore are not reported in the funds.

Net pension liability	(26,173,379)
Net other postemployment benefit liability	(3,890,118)
Deferred inflows related to the net pension and OPEB liabilities	(6,175,901)
Deferred outflows related to the net pension and OPEB liabilities	7,011,061

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.

Bonds payable and installment purchase agreement	(3,369,713)
Bond premiums	(150,916)
Deferred charge on refunding	82,388
Accrued interest on bonds payable	(20,792)
Compensated absences	(240,595)

Net position (deficit) of governmental activities \$ (23,272,227)

The accompanying notes are an integral part of these basic financial statements.

HOUGHTON LAKE COMMUNITY SCHOOLS

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2021

	General Fund	Food Service Special Revenue Fund	2017 Refunding Bonds Debt Service Fund	Student/School Activity Nonmajor Special Revenue Fund	Totals
Revenues					
Local sources:					
Taxes	\$ 8,342,772	\$ -	\$ 662,495	\$ -	\$ 9,005,267
Charges for services	41,826	-	-	54,248	96,074
Food service	-	39,595	-	-	39,595
Transfers from other districts	55,838	-	-	-	55,838
Interest	2,819	600	-	-	3,419
Other	111,701	-	-	-	111,701
State sources	4,406,573	45,011	-	-	4,451,584
Federal sources	2,237,035	796,811	-	-	3,033,846
Total revenues	15,198,564	882,017	662,495	54,248	16,797,324
Expenditures					
Current:					
Instruction	8,154,781	-	-	-	8,154,781
Supporting services	5,632,655	-	-	59,582	5,692,237
Food service activities	-	781,218	-	-	781,218
Community services	32,790	-	-	-	32,790
Debt service:					
Principal	31,373	-	405,000	-	436,373
Interest and fiscal charges	3,175	-	113,949	-	117,124
Capital outlay	-	77,007	-	-	77,007
Total expenditures	13,854,774	858,225	518,949	59,582	15,291,530
Revenues over (under) expenditures	1,343,790	23,792	143,546	(5,334)	1,505,794
Other financing sources					
Proceeds from sale of capital assets	44,286	-	-	-	44,286
Net change in fund balances	1,388,076	23,792	143,546	(5,334)	1,550,080
Fund balances, beginning of year, as restated	(310,263)	357,524	329,283	157,769	534,313
Fund balances, end of year	\$ 1,077,813	\$ 381,316	\$ 472,829	\$ 152,435	\$ 2,084,393

The accompanying notes are an integral part of these basic financial statements.

HOUGHTON LAKE COMMUNITY SCHOOLS

Reconciliation

Net Changes in Fund Balances of Governmental Funds
to Change in Net Position of Governmental Activities
For the Year Ended June 30, 2021

Net change in fund balances - total governmental funds \$ 1,550,080

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 those assets is allocated over their estimated useful lives as depreciation expense.

Capital assets constructed/purchased	1,872,890
Depreciation expense	(616,704)
Proceeds from sale of capital assets	(44,286)
Gain on sale of capital assets	42,327

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to subsequent fiscal years.

Change in unavailable revenue	(59,875)
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Repayment of debt principal is an expenditure in the funds, but the repayment reduces long-term liabilities in the statement of net position.

Principal payments on long-term liabilities	436,373
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Change in accrued interest payable on bonds	(1,866)
Amortization of bond premium	21,559
Amortization of deferred charges on refunding	(13,731)
Change in net pension liabilities and related deferred amounts	(1,311,137)
Change in net OPEB liabilities and related deferred amounts	793,230
Change in the accrual for compensated absences	37,047

Change in net position of governmental activities \$ 2,705,907

The accompanying notes are an integral part of these basic financial statements.

HOUGHTON LAKE COMMUNITY SCHOOLS

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund

For the Year Ended June 30, 2021

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Local sources:				
Taxes	\$ 7,999,475	\$ 8,285,353	\$ 8,342,772	\$ 57,419
Charges for services	70,000	49,600	41,826	(7,774)
Transfers from other districts	55,837	55,837	55,838	1
Interest	10,000	7,500	2,819	(4,681)
Other	69,000	98,000	111,701	13,701
State sources	3,856,233	4,248,411	4,406,573	158,162
Federal sources	1,443,544	2,045,499	2,237,035	191,536
Total revenues	13,504,089	14,790,200	15,198,564	408,364
Expenditures				
Current:				
Instruction:				
Basic programs	5,587,955	6,490,379	6,524,674	34,295
Added needs	2,163,495	1,561,881	1,552,431	(9,450)
Adult education	130,314	80,560	77,676	(2,884)
	<u>7,881,764</u>	<u>8,132,820</u>	<u>8,154,781</u>	<u>21,961</u>
Supporting services:				
Pupil services	581,331	613,480	586,911	(26,569)
Instructional staff	558,064	674,301	513,376	(160,925)
General administration	347,634	331,653	300,525	(31,128)
School administration	1,030,167	995,626	1,001,474	5,848
Business office	324,793	354,626	277,725	(76,901)
Operation and maintenance	1,350,455	1,406,354	1,262,744	(143,610)
Pupil transportation	1,190,344	1,146,607	1,039,529	(107,078)
Central services	656,421	705,880	650,371	(55,509)
	<u>6,039,209</u>	<u>6,228,527</u>	<u>5,632,655</u>	<u>(595,872)</u>
Community services	24,411	55,160	32,790	(22,370)
Debt service:				
Principal	34,546	31,374	31,373	(1)
Interest and fiscal charges	3,173	3,175	3,175	-
	<u>37,719</u>	<u>34,549</u>	<u>34,548</u>	<u>(1)</u>
Total expenditures	13,983,103	14,451,056	13,854,774	(596,282)
Revenues over (under) expenditures	(479,014)	339,144	1,343,790	1,004,646
Other financing sources				
Proceeds from sale of capital assets	-	44,300	44,286	(14)
Transfers in	-	20,000	-	(20,000)
Total other financing sources	-	64,300	44,286	(20,014)
Net change in fund balance	(479,014)	403,444	1,388,076	984,632
Fund balance, beginning of year	(310,263)	(310,263)	(310,263)	-
Fund balance, end of year	\$ (789,277)	\$ 93,181	\$ 1,077,813	\$ 984,632

The accompanying notes are an integral part of these basic financial statements.

HOUGHTON LAKE COMMUNITY SCHOOLS

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - Food Service Special Revenue Fund
For the Year Ended June 30, 2021

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Local sources:				
Food service	\$ 51,236	\$ 45,000	\$ 39,595	\$ (5,405)
Interest	-	1,000	600	(400)
State sources	22,253	41,000	45,011	4,011
Federal sources	902,789	780,789	796,811	16,022
Total revenues	<u>976,278</u>	<u>867,789</u>	<u>882,017</u>	<u>14,228</u>
Expenditures				
Current:				
Food service activities	1,029,303	865,442	781,218	(84,224)
Capital outlay	-	79,789	77,007	(2,782)
Total expenditures	<u>1,029,303</u>	<u>945,231</u>	<u>858,225</u>	<u>(87,006)</u>
Revenues over (under) expenditures	(53,025)	(77,442)	23,792	101,234
Fund balance, beginning of year	<u>357,524</u>	<u>357,524</u>	<u>357,524</u>	<u>-</u>
Fund balance, end of year	<u>\$ 304,499</u>	<u>\$ 280,082</u>	<u>\$ 381,316</u>	<u>\$ 101,234</u>

The accompanying notes are an integral part of these basic financial statements.

NOTES TO FINANCIAL STATEMENTS

HOUGHTON LAKE COMMUNITY SCHOOLS

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Houghton Lake Community Schools (the “District”) has followed the guidelines of the Governmental Accounting Standards Board and has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include entities for which the District is considered to be financially accountable.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for services. The District had no *business-type activities* during the year ended June 30, 2021.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The major governmental funds are reported as a separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

HOUGHTON LAKE COMMUNITY SCHOOLS

Notes to Financial Statements

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

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

The District reports the following major governmental funds:

The *general fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those accounted for and reported in another fund.

The food service *special revenue fund* is used to account for the activity related to the District's food service program, which includes federal grants as well as sales to the students.

The *2017 refunding bonds debt service fund* is used to account for all financial resources restricted, committed or assigned to expenditure of principal and interest.

Additionally, the District reports the following fund types:

The *special revenue fund* is used to account for the proceeds of specific revenue sources that are restricted for food service.

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

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Equity

Deposits and Investments

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

The District's investments in the Michigan Liquid Asset Fund (MILAF) are recorded at amortized cost.

HOUGHTON LAKE COMMUNITY SCHOOLS

Notes to Financial Statements

Michigan law authorizes the District to deposit and invest in:

- a. 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. In a primary or fourth class school district, the bonds, bills or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
- b. Certificates of deposits issued by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.
- c. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- d. Securities issued or guaranteed by agencies or instrumentalities of the United States, United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.
- e. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- f. Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non current portion of interfund loans).

Amounts due from other governments include State Aid and amounts due from grantors for specific programs. State Aid payments to be received by the District in July and August are recorded as a receivable and revenue of the previous fiscal year. Program grants are recorded as receivables and revenues at the time reimbursable project costs are incurred.

Inventories and Prepaids

All inventories are valued at cost using the first-in/first out ("FIFO") method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaids in both the government-wide and fund financial statements.

HOUGHTON LAKE COMMUNITY SCHOOLS

Notes to Financial Statements

Capital Assets

Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

Donated capital assets are recorded at estimated acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings and improvements	50
Site improvements	20
Machinery and equipment	5-15
Transportation equipment	8

Deferred Outflows of Resources

In addition to assets, the statement of financial 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 one or more future periods and will not be recognized as an outflow of resources (expense/expenditure) until then. The District reports deferred outflows of resources related to its pension and OPEB plans as well as for the deferred charge on refunding. A deferred refunding charge results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The District also reports deferred outflows of resources related to the net pension and OPEB liabilities. A portion of this balance represents contributions to the plan subsequent to the pension and OPEB liabilities measurement date.

Salaries Payable and Accrued Employee Benefits

A liability is recorded at June 30 for those amounts owed to teachers and other employees of the District who do not work during the summer when school is not in session but have elected to have their salaries paid over an entire year. This has the effect of properly charging their salaries to expenditures in the fiscal year in which their services are received, even though they are not paid until July and August of the following fiscal year.

HOUGHTON LAKE COMMUNITY SCHOOLS

Notes to Financial Statements

The liability for accrued retirement and the employer share of FICA related to the salaries payable has been recorded for the months of July and August. The District pays these benefits for this period as a part of the compensation for services rendered in the proceeding school year.

Compensated Absences

It is the District's policy to permit employees to accumulate various earned but unused sick pay benefits. These are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

Benefits are accrued based on various contract stipulations and lengths of service for the various bargaining units. In addition, the District's teacher's bargaining units are entitled to severance payouts upon separation from the District.

Deferred Inflows of Resources

In addition to liabilities, the statement of financial 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 one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time. The governmental funds may report unavailable revenues, which arise only under a modified accrual basis of accounting, from revenues that were not collected within 60 days. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The District also reports deferred inflows of resources related to pension and other postemployment benefit costs.

Long-term Obligations

In the government-wide financial statements, long term obligations are reported as liabilities in the governmental activities statement of net position. Where applicable, bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as expense when incurred.

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

HOUGHTON LAKE COMMUNITY SCHOOLS

Notes to Financial Statements

Fund Equity

In the fund financial statements, governmental funds report nonspendable fund balance for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Restricted fund balance is reported when externally imposed constraints are placed on the use of the resources by grantors, contributors, or laws or regulations of other governments. Committed fund balance is reported for amounts that can be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision making authority, the Board of Education. A formal resolution of the Board of Education is required to establish, modify or rescind a fund balance commitment. Such commitments are intended to insulate the District programs and current service levels from large and unanticipated one-time general fund expenditure requirements, adverse judgments, catastrophic losses, emergency replacements, or any other similar unforeseen events. The District reports assigned fund balance for amounts that are constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed. The Board of Education has delegated the authority to assign fund balance to the District's Superintendent. Unassigned fund balance is the residual classification for the general fund.

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, assigned, and finally unassigned.

Pensions and Other Postemployment Benefits

For purposes of measuring the net pension and OPEB liabilities, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB, and pension and OPEB expense, information about the fiduciary net position of the Plan and additions to/deductions from the plan fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. STATE OF MICHIGAN SCHOOL AID

The District reports State of Michigan school aid in the fiscal year in which the District is entitled to the revenue as provided by State of Michigan school aid appropriation acts. State funding, which includes State Aid and restricted grants, represented 29% of the District's general fund revenue during the 2021 fiscal year.

HOUGHTON LAKE COMMUNITY SCHOOLS

Notes to Financial Statements

3. BUDGETARY INFORMATION

The general and special revenue funds are under formal budgetary control. Budgets shown in the financial statements are adopted annually on a basis consistent with generally accepted accounting principles (“GAAP”), which is the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted or as amended by the Board of Education. The budgets for the general and special revenue funds are adopted on a functional basis and all annual appropriations lapse at fiscal year-end.

For the year ended June 30, 2021, the District incurred expenditures in excess of amounts appropriated, as follows:

	Total Appropriations	Amount of Expenditures	Budget Variance
General Fund			
Current:			
Instruction:			
Basic programs	\$ 6,490,379	\$ 6,524,674	\$ 34,295
Supporting services:			
School administration	995,626	1,001,474	5,848

4. DEPOSITS AND INVESTMENTS

Following is a reconciliation of cash and cash equivalents and investments as shown on the Statement of Net Position as of June 30, 2021:

Statement of Net Position	
Cash and cash equivalents	\$ 1,002,806
Investments	<u>1,163,116</u>
Total	<u><u>\$ 2,165,922</u></u>
Deposits	\$ 1,002,488
Investments	1,163,116
Cash on hand	<u>318</u>
Total	<u><u>\$ 2,165,922</u></u>

As of June 30, 2021, the District had the following investments:

Investment Type	Amortized Cost	Maturity	Rating
MILAF External Investment pool - MIMAX	<u>\$ 1,163,116</u>	n/a	S & P AAAM

HOUGHTON LAKE COMMUNITY SCHOOLS

Notes to Financial Statements

The District voluntarily invests certain excess funds in external pooled investment funds which include money market funds. One of the pooled investment funds utilized by the District is the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external pooled investment fund of “qualified” investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports as of June 30, 2021, the fair value of the District’s investments is the same as the value of the pool shares.

MILAF funds are considered external investment pools as defined by the GASB and as such are recorded at amortized cost which approximate fair value. The MILAF (MAX Class) fund requires notification of redemptions prior to 14 days to avoid penalties. These funds are not subject to the fair value disclosures.

Deposit and Investment Risk

Custodial credit risk - deposits. Custodial credit risk is the risk that in the event of a bank failure, the District’s deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year-end, \$804,572 of the District’s bank balance of \$1,157,994 was exposed to credit risk because it was uninsured and uncollateralized.

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All repurchase securities are held by the investment’s counterparty (Chemical Bank), not in the name of the District. 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. The District’s investments are not exposed to custodial credit risk since the securities are held by a counterparty in the name of the District.

Interest rate risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the above list of authorized investments. In accordance with the District’s investment policy, the District will minimize interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District’s cash requirements.

Credit risk. The District’s investment policy does not have specific limits in excess of state law on investment credit risk which limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

Concentration of credit risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The District’s investment policy does not have specific limits in excess of state law on concentration of credit risk.

HOUGHTON LAKE COMMUNITY SCHOOLS

Notes to Financial Statements

5. RECEIVABLES

The District's receivables at year-end consist of the following:

	General Fund	Food Service Special Revenue Fund	Total
Accounts receivable	\$ 1,492	1,864	\$ 3,356
Due from other governments	1,317,538	60,315	1,377,853
	<u>\$ 1,319,030</u>	<u>\$ 62,179</u>	<u>\$ 1,381,209</u>

6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2021, was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental activities				
Capital assets not being depreciated:				
Construction in progress	\$ -	\$ 10,703	\$ -	\$ 10,703
Capital assets being depreciated:				
Site improvements	1,496,595	-	-	1,496,595
Buildings and improvements	14,541,358	772,648	(32,530)	15,281,476
Machinery and equipment	2,829,994	819,434	(36,914)	3,612,514
Transportation equipment	1,668,348	270,105	-	1,938,453
	<u>20,536,295</u>	<u>1,862,187</u>	<u>(69,444)</u>	<u>22,329,038</u>
Less accumulated depreciation for:				
Site improvements	(706,165)	(73,664)	-	(779,829)
Buildings and improvements	(10,666,337)	(134,044)	32,530	(10,767,851)
Machinery and equipment	(1,733,875)	(256,979)	34,955	(1,955,899)
Transportation equipment	(1,112,800)	(152,017)	-	(1,264,817)
	<u>(14,219,177)</u>	<u>(616,704)</u>	<u>67,485</u>	<u>(14,768,396)</u>
Capital assets being depreciated, net	<u>6,317,118</u>	<u>1,245,483</u>	<u>(1,959)</u>	<u>7,560,642</u>
Governmental activities capital assets, net	<u>\$ 6,317,118</u>	<u>\$ 1,256,186</u>	<u>\$ (1,959)</u>	<u>\$ 7,571,345</u>

HOUGHTON LAKE COMMUNITY SCHOOLS

Notes to Financial Statements

Depreciation expense was charged to functions / programs as follows:

Governmental activities:

Instruction	\$ 267,021
Support services	55,195
Unallocated	<u>294,488</u>
	<u>\$ 616,704</u>

Original cost of land is not determinable and is recorded at zero.

As of June 30, 2021, the District had outstanding commitments related to the water filling station and the water softener projects in the total approximate amount of \$89,100.

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2021 are as follows:

	General Fund	Food Service Special Revenue Fund	Student/School Activity Nonmajor Special Revenue Fund	Total
Fund financial statements				
Accounts payable	\$ 82,399	\$ 86,861	\$ 1,866	\$ 171,126
Salaries and benefits payable	<u>1,430,342</u>	<u>-</u>	<u>-</u>	<u>1,430,342</u>
	<u>\$ 1,512,741</u>	<u>\$ 86,861</u>	<u>\$ 1,866</u>	1,601,468
Government-wide financial statements				
Accrued interest on bonds payable				<u>20,792</u>
Total accounts payable and accrued liabilities				<u>\$ 1,622,260</u>

8. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

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

HOUGHTON LAKE COMMUNITY SCHOOLS

Notes to Financial Statements

At June 30, 2021, interfund receivables and payables in the fund financial statements consisted of the following:

	Due from Other Funds	Due to Other Funds
General fund	\$ -	\$ 73
2017 Refunding Bonds Debt Service Fund	73	-
	<u>\$ 73</u>	<u>\$ 73</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

For the year ended June 30, 2021, the District had no interfund transfers.

9. OPERATING LEASES

The District had various noncancelable operating leases for buses and copiers, with total expenditures of \$55,351 for the year ended June 30, 2021. The future minimum lease payments for the bus and copier leases are as follows:

2022	\$ 55,351
2023	28,828
2024	28,828
2025	28,828
Total minimum lease payments	<u>\$ 141,835</u>

10. LONG-TERM DEBT

The following is a summary of the long-term debt activity of the District for the year ended June 30, 2021:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General obligation bonds	\$ 3,615,000	\$ -	\$ (405,000)	\$ 3,210,000	\$ 420,000
Direct placement:					
Installment purchase agreement	191,086	-	(31,373)	159,713	30,282
Subtotal	3,806,086	-	(436,373)	3,369,713	450,282
Bond premium	172,475	-	(21,559)	150,916	21,559
Compensated absences	277,642	-	(37,047)	240,595	35,638
	<u>\$ 4,256,203</u>	<u>\$ -</u>	<u>\$ (494,979)</u>	<u>\$ 3,761,224</u>	<u>\$ 507,479</u>

HOUGHTON LAKE COMMUNITY SCHOOLS

Notes to Financial Statements

Compensated absences are generally liquidated by the general fund.

Bonds and installment purchase agreement payable at June 30, 2021, are comprised of the following:

\$4,515,000 2017 partial refunding bonds; due in annual installments ranging from \$420,000 to \$500,000 through May 1, 2028; interest charged at 3.00% to 4.00%.	\$ 3,210,000
\$191,086 installment purchase agreement; due in annual installments ranging from \$31,090 to \$33,648 through July 20, 2025; interest charged at 2.67%.	<u>159,713</u>
Total	<u>\$ 3,369,713</u>

Annual debt service requirements to maturity for long-term obligations, excluding compensated absences, are as follows:

Year Ended June 30,	Other Obligations		Direct Placement Obligations	
	Principal	Interest	Principal	Interest
2022	\$ 420,000	\$ 101,300	\$ 30,282	\$ 4,264
2023	430,000	88,700	31,090	3,456
2024	445,000	75,800	31,920	2,626
2025	460,000	62,450	32,773	1,773
2026	470,000	48,650	33,648	898
2027-2028	985,000	54,550	-	-
	<u>\$ 3,210,000</u>	<u>\$ 431,450</u>	<u>\$ 159,713</u>	<u>\$ 13,017</u>

The District has defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. At June 30, 2021, \$3,425,000 of bonds outstanding are considered defeased.

11. STATE AID NOTE

On May 7, 2020, the District received funding through a state aid note in the amount of \$4,000,000 with 2.49% interest which matured on December 1, 2020. The District paid the outstanding balance as of the maturity date resulting in no outstanding principal as of June 30, 2021.

HOUGHTON LAKE COMMUNITY SCHOOLS

Notes to Financial Statements

Changes in short-term state aid notes (including accrued interest) for the year ended June 30, 2021, were as follows:

	Beginning Balance	Additions	Deductions	Ending Balance
State aid note	\$ 4,058,100	\$ -	\$ (4,058,100)	\$ -

12. COMMITMENTS AND CONTINGENCIES

Under the terms of various Federal and State grants and regulatory requirements, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants and requirements. Such audits could lead to reimbursement to the grantor or regulatory agencies. However, management does not believe such disallowances, if any, will be material to the financial position of the District.

As in the case with other entities, the District faces exposure from potential claims and legal proceedings involving environmental matters. It is the opinion of the District's legal counsel that no potential claims or legal proceedings exist that could have a material effect on the financial condition of the District exist.

13. RISK MANAGEMENT

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) as well as medical benefits provided to employees. The District has purchased commercial insurance for general liability, property and casualty and health claims and participates in the MASB/SET-SEG (risk pool) for claims relating to employee injuries/workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The shared-risk pool program in which the District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

14. PROPERTY TAXES

Property taxes are assessed as of December 31 each year and attach as an enforceable lien on property as of the following July 1. School property taxes are levied on December 1 each year, based on the previous year's assessment, by Township governments whose boundaries include property within the District, and are due by February 28. Delinquent real taxes are advanced to the District by the Counties involved. Taxes are recorded as revenue in the year levied. Tax revenue is recorded for property taxes collected within 60 days of year-end, if any.

HOUGHTON LAKE COMMUNITY SCHOOLS

Notes to Financial Statements

15. PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS

Plan Description

The Michigan Public School Employees' Retirement System (the "System" or MPSERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (the "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 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 at the ORS website at www.michigan.gov/orsschools.

Pension Benefits Provided

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. 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% to 1.50%. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

A DB member 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.

HOUGHTON LAKE COMMUNITY SCHOOLS

Notes to Financial Statements

Participants in the defined contribution plan consist of one of the following: (1) members who worked for a Michigan public school on or after September 4, 2012 and elected to be enrolled in the defined contribution plan; (2) members who elected to transfer from the defined benefit plan to the defined contribution plan under the reform (P.A. 300) of 2012; or (3) members who worked for a Michigan public school on or after February 1, 2018 and did not elect participation in the Pension Plus 2 plan. Members who worked for a Michigan public school on or after September 4, 2012 and elected to be enrolled in the defined contribution plan receive a 100% match of the member contribution rate up to a maximum of 3% based on the member's gross earnings. Additionally, there is a mandatory employer contribution of 4% of the member's gross earnings for MPSERS members who elected to convert from a Basic or MIP benefit plan to the defined contribution benefit plan. Members electing the Pension Plus or Pension Plus 2 benefit plan receive a 50% match of the member's contribution percent up to a maximum of 1% based on the member's gross earnings. Effective October 1, 2017, there is a mandatory employer contribution of 4% of the member's gross earnings for members who elect the Defined Contribution benefit plan. The employer must match 100% of the employee contribution for any member who elected the Personal Healthcare Fund up to a maximum of 2% of the member's gross earnings. For all members with a Personal Health Care Fund (PHF), the first 2% of DC contributions must go into the PHF and must be matched 100% by the employer.

Other Postemployment Benefits Provided

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

HOUGHTON LAKE COMMUNITY SCHOOLS

Notes to Financial Statements

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.

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 the September 30, 2019 valuation will be amortized over a 19-year period beginning October 1, 2019 and ending September 30, 2038.

The table below summarizes pension contribution rates in effect for fiscal year 2021:

Benefit Structure	Member Rates	Employer Rates
Basic	0.00% - 4.00%	19.41% - 19.78%
Member Investment Plan (MIP)	3.00% - 7.00%	19.41% - 19.78%
Pension Plus	3.00% - 6.40%	16.46% - 16.82%
Pension Plus 2	6.20%	19.59%
Defined Contribution	0.00%	13.39%

For the year ended June 30, 2021, required and actual contributions from the District to the pension plan were \$1,961,236, which included \$950,955, the amount received from the State and remitted to the System to fund the MPSERS unfunded actuarial accrued liability ("UAAL") stabilization rate.

HOUGHTON LAKE COMMUNITY SCHOOLS

Notes to Financial Statements

The table below summarizes OPEB contribution rates in effect for fiscal year 2021:

Benefit Structure	Member Rates	Employer Rates
Premium Subsidy	3.00%	8.09% - 8.43%
Personal Healthcare Fund (PHF)	0.00%	7.57%

For the year ended June 30, 2021, required and actual contributions from the District to the OPEB plan were \$446,821.

The table below summarizes defined contribution rates in effect for fiscal year 2021:

Benefit Structure	Member Rates	Employer Rates
Defined Contribution	0.00% - 3.00%	0.00% - 7.00%
Personal Healthcare Fund (PHF)	0.00% - 2.00%	0.00% - 2.00%

For the year ended June 30, 2021, required and actual contributions from the District for those members with a defined contribution benefit were \$40,071.

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

At June 30, 2021, the District reported a liability of \$26,173,379 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2019. 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 pension contributions required from all applicable employers during the measurement period. At September 30, 2020, the District’s proportion was 0.07619%, which was a decrease of 0.00754% from its proportion measured as of September 30, 2019.

HOUGHTON LAKE COMMUNITY SCHOOLS

Notes to Financial Statements

For the year ended June 30, 2021, the District recognized pension expense of \$3,325,636. At June 30, 2021, 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	Net Deferred Outflows (Inflows) of Resources
Differences between expected and actual experience	\$ 399,908	\$ 55,863	\$ 344,045
Changes in assumptions	2,900,263	-	2,900,263
Net difference between projected and actual earnings on pension plan investments	109,969	-	109,969
Changes in proportion and differences between employer contributions and proportionate share of contributions	55,436	2,223,550	(2,168,114)
	<u>3,465,576</u>	<u>2,279,413</u>	<u>1,186,163</u>
District contributions subsequent to the measurement date	1,834,741	-	1,834,741
	<u>1,834,741</u>	<u>-</u>	<u>1,834,741</u>
Total	<u>\$ 5,300,317</u>	<u>\$ 2,279,413</u>	<u>\$ 3,020,904</u>

The \$1,834,741 reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Amount
2022	\$ 860,407
2023	376,322
2024	957
2025	<u>(51,523)</u>
Total	<u>\$ 1,186,163</u>

HOUGHTON LAKE COMMUNITY SCHOOLS

Notes to Financial Statements

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

At June 30, 2021, the District reported a liability of \$3,890,118 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2019. The District's proportion of the net OPEB liability was determined by dividing each employer's statutorily required OPEB contributions to the system during the measurement period by the percent of OPEB contributions required from all applicable employers during the measurement period. At September 30, 2020, the District's proportion was 0.07261% which was a decrease of 0.00895% from its proportion measured as of September 30, 2019.

For the year ended June 30, 2021, the District recognized OPEB expense of \$340,765. At June 30, 2021, 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	Net Deferred Outflows (Inflows) of Resources
Differences between expected and actual experience	\$ -	\$ 2,898,501	\$ (2,898,501)
Changes in assumptions	1,282,649	-	1,282,649
Net difference between projected and actual earnings on OPEB plan investments	32,467	-	32,467
Changes in proportion and differences between employer contributions and proportionate share of contributions	6,627	997,987	(991,360)
	<u>1,321,743</u>	<u>3,896,488</u>	<u>(2,574,745)</u>
District contributions subsequent to the measurement date	389,001	-	389,001
Total	<u>\$ 1,710,744</u>	<u>\$ 3,896,488</u>	<u>\$ (2,185,744)</u>

HOUGHTON LAKE COMMUNITY SCHOOLS

Notes to Financial Statements

The \$389,001 reported as deferred outflows of resources related to OPEB resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30,	Amount
2022	\$ (663,186)
2023	(618,066)
2024	(535,966)
2025	(431,731)
2026	<u>(325,796)</u>
Total	<u>\$ (2,574,745)</u>

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. The total pension and OPEB liabilities in the September 30, 2019 actuarial valuation were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry age, normal
Wage inflation rate	2.75%
Investment rate of return:	
MIP and Basic plans (non-hybrid)	6.80%
Pension Plus plan (hybrid)	6.80%
Pension Plus 2 plan (hybrid)	6.00%
OPEB plans	6.95%
Projected salary increases	2.75% - 11.55%, including wage inflation at 2.75%
Cost of living adjustments	3% annual non-compounded for MIP members
Healthcare cost trend rate	7.0% Year 1 graded to 3.5% Year 15; 3.0% Year 120
Mortality	RP-2014 Male and Female Employee Annuitant Mortality Tables, adjusted for mortality improvements using projection scale MP-2017 from 2006. For retirees, the tables were scaled by 82% for males and 78% for females. For active members, 100% of the table rates were used for both males and females.
Other OPEB 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.

HOUGHTON LAKE COMMUNITY SCHOOLS

Notes to Financial Statements

Survivor coverage	80% of male retirees and 67% of female retirees are assumed to have coverages continuing after the retiree's death.
Coverage election at retirement	75% of male and 60% of female future retirees are assumed to elect coverage for 1 or more dependents.

Assumption changes as a result of an experience study for the period 2012 through 2017 have been adopted by the System for use in the annual pension and OPEB valuations beginning with the September 30, 2017 valuation. The total pension and OPEB liabilities as of September 30, 2020, are based on the results of an actuarial valuation date of September 30, 2019, and rolled forward using generally accepted actuarial procedures, including the experience study. The recognition period for pension liabilities is 4.4892 years which is the average of the expected remaining service lives of all employees. The recognition period for OPEB liabilities is 5.6018 years which is the average of the expected remaining service lives of all employees. The recognition period for assets is 5 years.

Long-term Expected Return on Pension Plan Assets

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, 2020, are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
Domestic equity pools	25.00%	5.29%	1.32%
Private equity pools	16.00%	8.78%	1.40%
International equity pools	15.00%	6.98%	1.05%
Fixed income pools	10.50%	0.47%	0.05%
Real estate and infrastructure pools	10.00%	4.62%	0.46%
Absolute return pools	9.00%	3.02%	0.27%
Real return/opportunistic pools	12.50%	6.23%	0.78%
Short-term investment pools	2.00%	-0.09%	0.00%
	<u>100.00%</u>		5.33%
Inflation			2.10%
Risk adjustment			<u>-0.63%</u>
Investment rate of return			<u><u>6.80%</u></u>

HOUGHTON LAKE COMMUNITY SCHOOLS

Notes to Financial Statements

Long-term Expected Return on OPEB Plan Assets

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, 2020, are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
Domestic equity pools	25.00%	5.29%	1.32%
Private equity pools	16.00%	8.78%	1.40%
International equity pools	15.00%	6.98%	1.05%
Fixed income pools	10.50%	0.47%	0.05%
Real estate and infrastructure pools	10.00%	4.62%	0.46%
Absolute return pools	9.00%	3.02%	0.27%
Real return/opportunistic pools	12.50%	6.23%	0.78%
Short-term investment pools	2.00%	-0.09%	0.00%
	<u>100.00%</u>		5.33%
Inflation			2.10%
Risk adjustment			<u>-0.48%</u>
Investment rate of return			<u><u>6.95%</u></u>

Rate of Return

For the fiscal year ended September 30, 2020, the annual money-weighted rate of return on pension and OPEB plan investments, net of pension and OPEB plan investment expense, was 5.37% and 5.24%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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Discount Rate

A discount rate of 6.80% was used to measure the total pension liability (6.80% for the Pension Plus plan, 6.00% for the Pension Plus 2 plan, both of which are hybrid plans provided through non-university employers only) and a discount rate of 6.95% was used to measure the total OPEB liability. This discount rate was based on the long-term expected rate of return on pension and OPEB plan investments of 6.80% (6.80% for the Pension Plus plan, 6.00% for the Pension Plus 2 plan) and 6.95%, respectively. The projection of cash flows used to determine these discount rates 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 and 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 pension and OPEB plan investments was applied to all periods of projected benefit payments to determine the total pension and OPEB liabilities.

Sensitivity of 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 6.80% (6.80% 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 (5.80% / 5.80% / 5.00%)	Current Discount Rate (6.80% / 6.80% / 6.00%)	1% Increase (7.80% / 7.80% / 7.00%)
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District's proportionate share of the net pension liability	\$ 33,876,999	\$ 26,173,379	\$ 19,788,795
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Sensitivity of District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net OPEB liability calculated using the discount rate of 6.95%, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher:

	1% Decrease (5.95%)	Current Discount Rate (6.95%)	1% Increase (7.95%)
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District's proportionate share of the net OPEB liability	\$ 4,997,298	\$ 3,890,118	\$ 2,957,965
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HOUGHTON LAKE COMMUNITY SCHOOLS

Notes to Financial Statements

Sensitivity of District’s Proportionate Share of the Net OPEB Liability to Healthcare Cost Trend Rate

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

	1% Decrease (6.50%)	Current Healthcare Cost Trend Rate (7.50%)	1% Increase (8.50%)
District's proportionate share of the net OPEB liability	\$ 2,922,274	\$ 3,890,118	\$ 4,990,921

Pension and OPEB Plans Fiduciary Net Position

Detailed information about the pension and OPEB plan’s fiduciary net position is available in the separately issued MPSERS financial statements available on the State of Michigan Office of Retirement Services website at www.michigan.gov/orsschools.

Payable to the Pension Plan

At June 30, 2021, the District reported a payable of \$353,835 for the outstanding amount of pension contributions to the Plan required for the year ended June 30, 2021.

Payable to the OPEB Plan

At June 30, 2021, the District reported a payable of \$62,968 for the outstanding amount of OPEB contributions to the Plan required for the year ended June 30, 2021.

HOUGHTON LAKE COMMUNITY SCHOOLS

Notes to Financial Statements

16. FUND BALANCE - GOVERNMENTAL FUNDS

In accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the District classifies fund balances based primarily on the extent to which it is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Detailed information on fund balances of governmental funds is as follows:

	General Fund	Food Service Special Revenue Fund	2017 Refunding Bonds Debt Service Fund	Student/School Activity Nonmajor Special Revenue Fund	Total
Nonspendable:					
Inventories	\$ 115,021	\$ 16,080	\$ -	\$ -	\$ 131,101
Prepays	7,946	72,000	-	-	79,946
Total nonspendable	<u>122,967</u>	<u>88,080</u>	<u>-</u>	<u>-</u>	<u>211,047</u>
Restricted for:					
Debt service	-	-	472,829	-	472,829
Food service	-	293,236	-	-	293,236
Total restricted	<u>-</u>	<u>293,236</u>	<u>472,829</u>	<u>-</u>	<u>766,065</u>
Committed for:					
Students/school	-	-	-	152,435	152,435
Forestry contract classroom project	5,479	-	-	-	5,479
Total committed	<u>5,479</u>	<u>-</u>	<u>-</u>	<u>152,435</u>	<u>157,914</u>
Unassigned (deficit)	<u>949,367</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>949,367</u>
Total fund balances - governmental funds	<u>\$ 1,077,813</u>	<u>\$ 381,316</u>	<u>\$ 472,829</u>	<u>\$ 152,435</u>	<u>\$ 2,084,393</u>

HOUGHTON LAKE COMMUNITY SCHOOLS

Notes to Financial Statements

17. NET INVESTMENT IN CAPITAL ASSETS

The composition of the District's net investment in capital assets as of June 30, 2021, was as follows:

	Governmental Activities
Capital assets:	
Not being depreciated	\$ 10,703
Being depreciated, net	7,560,642
Total capital asset	<u>7,571,345</u>
Related debt:	
Bonds payable and installment purchase agreement	3,369,713
Bond premium	150,916
Deferred loss	<u>(82,388)</u>
Total related debt	<u>3,438,241</u>
Net investment in capital assets	<u>\$ 4,133,104</u>

18. CORONAVIRUS (COVID-19)

In March 2020, the World Health Organization declared the novel coronavirus outbreak (COVID-19) to be a global pandemic. While the pandemic has resulted in an increase in the demands on the District to deliver education to students in a safe environment, the Federal Government has also provided significant resources to help mitigate the impacts of COVID-19. The District received approximately \$1,170,000 during 2021 from various funding sources to be used to respond to the impacts of the COVID-19 pandemic through the CARES Act and other funding sources. This funding was used to purchase personal protection equipment (PPE), cleaning and sanitizing materials, and supplies, as well as for activities to support remote learning for students. With these additional Federal resources, at this time management does not believe that the negative financial impact of the pandemic, if any, would be material to the District.

19. SUBSEQUENT EVENTS

On August 23, 2021, the Board approved the purchase of two buses in the total amount of \$107,000.

20. RESTATEMENTS

The District adopted the provisions of GASB Statement No. 84, *Fiduciary Activities*, in the current year. As a result of this change, beginning net position of governmental activities and the fund balance of the student/school activity special revenue fund were increased by \$157,769.



REQUIRED SUPPLEMENTARY INFORMATION

HOUGHTON LAKE COMMUNITY SCHOOLS

Required Supplementary Information

MPSERS Cost-Sharing Multiple-Employer Plan

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

	Year Ended June 30,			
	2021	2020	2019	2018
District's proportionate share of the net pension liability	\$ 26,173,379	\$ 27,729,985	\$ 26,216,455	\$ 22,759,611
District's proportion of the net pension liability	0.07619%	0.08373%	0.08721%	0.08783%
District's covered payroll	\$ 6,485,334	\$ 7,161,989	\$ 7,392,020	\$ 7,283,577
District's proportionate share of the net pension liability as a percentage of its covered payroll	403.58%	387.18%	354.66%	312.48%
Plan fiduciary net position as a percentage of the total pension liability	59.72%	60.31%	62.36%	64.21%

See notes to required supplementary information.



Year Ended June 30,		
2017	2016	2015
\$ 21,407,815	\$ 19,979,985	\$ 17,832,362
0.08581%	0.08180%	0.08096%
\$ 7,406,904	\$ 6,822,821	\$ 6,840,439
289.03%	292.84%	260.69%
63.27%	63.17%	66.20%

HOUGHTON LAKE COMMUNITY SCHOOLS

Required Supplementary Information

MPSERS Cost-Sharing Multiple-Employer Plan
Schedule of the District's Pension Contributions

	Year Ended June 30,			
	2021	2020	2019	2018
Statutorily required contribution	\$ 1,961,236	\$ 2,095,461	\$ 2,144,733	\$ 2,102,459
Contributions in relation to the statutorily required contribution	<u>(1,961,236)</u>	<u>(2,095,461)</u>	<u>(2,144,733)</u>	<u>(2,102,459)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 5,655,548	\$ 6,713,785	\$ 7,270,107	\$ 7,372,709
Contributions as a percentage of covered payroll	34.68%	31.21%	29.50%	28.52%

See notes to required supplementary information.



Year Ended June 30,		
2017	2016	2015
\$ 1,973,644	\$ 1,809,685	\$ 1,492,289
<u>(1,973,644)</u>	<u>(1,809,685)</u>	<u>(1,492,289)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 7,240,173	\$ 7,143,586	\$ 6,688,782
27.26%	25.33%	22.31%

HOUGHTON LAKE COMMUNITY SCHOOLS

Required Supplementary Information

MPSERS Cost-Sharing Multiple-Employer Plan

Schedule of the District's Proportionate Share of the Net Other Postemployment Benefit Liability

	Year Ended June 30,			
	2021	2020	2019	2018
District's proportionate share of the net OPEB liability	\$ 3,890,118	\$ 5,854,740	\$ 6,882,097	\$ 7,786,824
District's proportion of the net OPEB liability	0.07261%	0.08157%	0.08658%	0.08793%
District's covered payroll	\$ 6,485,334	\$ 7,161,989	\$ 7,392,020	\$ 7,283,577
District's proportionate share of the net OPEB liability as a percentage of its covered payroll	59.98%	81.75%	93.10%	106.91%
Plan fiduciary net position as a percentage of the total OPEB liability	59.44%	48.46%	42.95%	36.39%

See notes to required supplementary information.

HOUGHTON LAKE COMMUNITY SCHOOLS

Required Supplementary Information

MPSERS Cost-Sharing Multiple-Employer Plan

Schedule of the District's Other Postemployment Benefit Contributions

	Year Ended June 30,			
	2021	2020	2019	2018
Statutorily required contribution	\$ 446,821	\$ 533,462	\$ 542,754	\$ 554,930
Contributions in relation to the statutorily required contribution	(446,821)	533,462	(542,754)	(554,930)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
District's covered payroll	\$ 5,655,548	\$ 6,713,785	\$ 7,270,107	\$ 7,372,709
Contributions as a percentage of covered payroll	7.90%	7.95%	7.47%	7.53%

See notes to required supplementary information.

HOUGHTON LAKE COMMUNITY SCHOOLS

Notes to Required Supplementary Information

Pension Information

GASB 68 was implemented in fiscal year 2015. The pension plan schedules are being built prospectively. Ultimately, 10 years of date will be presented.

The amounts presented in the schedule of the District's Proportionate Share of the Net Pension Liability were determined as of September 30 of the preceding year (the plan year).

The significant changes in assumptions for each of the fiscal years ended June 30 were as follows:

- 2021 - The payroll growth assumption for amortization purposes used in determining the fiscal year 2022 employer contributions decreased from 3.5% to 3.0%.
- 2020 - The discount rate used in the September 30, 2018 actuarial valuation decreased to 6.80% for the MIP and Basic plans, 6.80% for the Pension Plus Plan, and 6.00% for the Pension Plus 2 Plan.
- 2019 - The discount rate used in the September 30, 2017 actuarial valuation decreased to 7.05% for the MIP and Basic plans, 7.00% for the Pension Plus plan, and 6.00% for the Pension Plus 2 plan.
- 2018 - The discount rate used in the September 30, 2016 actuarial valuation decreased to 7.50% for the MIP and Basic plans and 7.00% for the Pension Plus plan.

OPEB Information

GASB 75 was implemented in fiscal year 2018. The OPEB plan schedules are being built prospectively. Ultimately, 10 years of date will be presented.

The amounts presented in the schedule of the District's Proportionate Share of the Net OPEB Liability were determined as of September 30 of the preceding year (the plan year).

The significant changes in assumptions for each of the fiscal years ended June 30 were as follows:

- 2021 - The payroll growth assumption for amortization purposes used in determining the fiscal year 2022 employer contributions decreased from 3.5% to 3.0%. The healthcare cost trend rate used in the September 30, 2019 actuarial valuation decreased to 7.0%.
- 2020 - The discount rate used in the September 30, 2018 actuarial valuation decreased to 6.95%.
- 2019 - The discount rate used in the September 30, 2017 actuarial valuation decreased to 7.15%.

SUPPLEMENTAL INFORMATION

HOUGHTON LAKE COMMUNITY SCHOOLS

Schedule of Outstanding Bonded Indebtedness

2017 Refunding Bonds

June 30, 2021

Date of Issue - March 17, 2017

Original amount of issue - \$4,515,000

Purpose of issue - To refund a portion of the 2008 Building and Site bonds.

Interest Rate	Year Ended June 30,	Semi-Annual Interest Payments		Annual Maturity	Total Fiscal Year Requirements
		November 1	May 1	May 1	
3.00%	2022	50,650	50,650	420,000	521,300
3.00%	2023	44,350	44,350	430,000	518,700
3.00%	2024	37,900	37,900	445,000	520,800
3.00%	2025	31,225	31,225	460,000	522,450
3.00%	2026	24,325	24,325	470,000	518,650
3.00%	2027	17,275	17,275	485,000	519,550
4.00%	2028	10,000	10,000	500,000	520,000
		<u>\$ 215,725</u>	<u>\$ 215,725</u>	<u>\$ 3,210,000</u>	<u>\$ 3,641,450</u>

SINGLE AUDIT ACT COMPLIANCE

**Independent Auditors' Report on the Schedule of Expenditures of Federal Awards
Required by the Uniform Guidance**

October 19, 2021

Board of Education
Houghton Lake Community Schools
Houghton Lake, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **Houghton Lake Community Schools** (the "District") as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated October 19, 2021, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Rehmann Loborn LLC

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HOUGHTON LAKE COMMUNITY SCHOOLS

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2021

Federal Agency / Cluster / Program Title	Assistance Listing Number	Passed Through	Pass-through / Grantor Number	Approved Grant Award Amount	Expenditures (Memo Only) Prior Year(s)
U.S. Department of Agriculture					
Child Nutrition Cluster:					
Non-cash assistance (commodities):					
National School Lunch - Entitlement	10.555	MDE	n/a	\$ 56,367	\$ -
Bonus Commodities	10.555	MDE	n/a	768	-
Cash assistance:					
National School Lunch Program:					
COVID-19 - National School Lunch Program - Section 11	10.555	MDE	200902	293,137	391,036
COVID-19 - Summer Food Service Program Unanticipated	10.555	MDE	211980	13,688	-
Summer Food Service Program Operating	10.559	MDE	200900	72,069	-
Summer Food Service Program Operating	10.559	MDE	210904	608,739	-
Child Nutrition Discretionary Grants Limited Availability (B)	10.579	MDE	191991-2021	25,000	-
Total Child Nutrition Cluster					
Child and Adult Care Food Program	10.558	MDE	211920	33,364	-
Child and Adult Care Food Program	10.558	MDE	212010	2,027	-
Total U.S. Department of Agriculture					
U.S. Department of Treasury					
COVID-19 - MiConnect Connectivity Project	21.019	CCISD	n/a	22,844	-
COVID-19 - 11P Coronavirus Relief Funds	21.019	MDE	n/a	433,003	-
COVID-19 - 103(2) District COVID Costs	21.019	MDE	n/a	15,242	-
Total U.S. Department of Treasury					
U.S. Department of Education					
Adult Basic Education	84.002	MDE	201130-201977	66,500	54,797
Adult Basic Education	84.002	MDE	201190-201977	15,000	14,521
Title I, Part A - Regular	84.010	MDE	201530-1920	789,802	665,313
Title I, Part A - Regular	84.010	MDE	211530-2021	865,661	-
Special Education Cluster (IDEA):					
IDEA Special Education Grants	84.027A	COORISD	200450-1920	435,244	435,244
IDEA Special Education Grants	84.027A	COORISD	210450-2021	422,342	-
Title V, Part B	84.358B	MDE	200660-1920	26,953	26,953
Title V, Part B	84.358B	MDE	210660-2021	30,346	-
Title II, Part A - Regular	84.367	MDE	200520-1920	125,000	109,269
Title II, Part A - Regular	84.367	MDE	210520-2021	131,644	-
Title IV, Part A - Regular	84.424	MDE	200750-1920	67,797	57,050
Title IV, Part A - Regular	84.424	MDE	201750-2021	62,417	-
COVID-19 - Governor's Emergency Education Relief	84.425C	MDE	201200-2021	96,145	-
COVID-19 - ESSER I Formula Funds	84.425D	MDE	203710-1920	584,702	-
COVID-19 - ESSER Education Equity Funds	84.425D	MDE	203720-1920	116,940	-
Total U.S. Department of Education					
Total Federal Financial Assistance					

See notes to schedule of expenditures of federal awards.

Accrued Revenue at June 30, 2020	Current Year Cash Received	Expenditures Year Ended June 30, 2021	Adjustments	Accrued Revenue at June 30, 2021
\$ -	\$ 56,367	\$ 56,367	\$ -	\$ -
-	768	768	-	-
-	57,135	57,135	-	-
97,899	97,899	-	-	-
-	12,217	13,688	-	1,471
97,899	110,116	13,688	-	1,471
-	72,069	72,069	-	-
-	560,014	608,739	-	48,725
-	632,083	680,808	-	48,725
-	9,789	9,789	-	-
97,899	809,123	761,420	-	50,196
-	29,042	33,364	-	4,322
-	2,027	2,027	-	-
-	31,069	35,391	-	4,322
97,899	840,192	796,811	-	54,518
-	22,844	22,844	-	-
-	433,003	433,003	-	-
-	15,242	15,242	-	-
-	471,089	471,089	-	-
54,797	54,797	-	-	-
14,521	14,521	-	-	-
69,318	69,318	-	-	-
275,572	275,572	-	-	-
-	393,223	592,526	-	199,303
275,572	668,795	592,526	-	199,303
52,663	52,663	-	-	-
-	324,911	391,999	-	67,088
52,663	377,574	391,999	-	67,088
26,953	26,953	-	-	-
-	20,952	30,346	-	9,394
26,953	47,905	30,346	-	9,394
12,897	12,897	-	-	-
-	47,461	52,375	-	4,914
12,897	60,358	52,375	-	4,914
12,394	12,394	-	-	-
-	44,986	59,585	-	14,599
12,394	57,380	59,585	-	14,599
-	96,145	96,145	-	-
-	375,503	426,030	-	50,527
-	116,940	116,940	-	-
-	588,588	639,115	-	50,527
449,797	1,869,918	1,765,946	-	345,825
\$ 547,696	\$ 3,181,199	\$ 3,033,846	\$ -	\$ 400,343

HOUGHTON LAKE COMMUNITY SCHOOLS

Notes to Schedule of Expenditures of Federal Awards

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of **Houghton Lake Community Schools** (the "District") under programs of the federal government for the year ended June 30, 2021. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

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

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

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

Expenditures are in agreement with amounts reported in the financial statements and the financial reports. The amounts reported on the Grant Auditor Report reconcile with this Schedule.

2. DE MINIMIS COST RATE

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

3. PASS-THROUGH AGENCIES

The District receives certain federal grants as subawards from non-federal entities. Pass-through entities, where applicable, have been identified in the Schedule with an abbreviation, defined as follows:

Pass-through Agency Abbreviation	Pass-through Agency Name
MDE	Michigan Department of Education
COORISD	Crawford Oscoda Ogemaw Roscommon Intermediate School District
CCISD	Copper County Intermediate School District



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

October 19, 2021


Board of Education
Houghton Lake Community Schools
Houghton Lake, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the remaining fund information of **Houghton Lake Community Schools** (the "District"), as of and for the year ended June 30, 2021, 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 19, 2021.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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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 may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Lehmann Lobson LLC". The signature is written in a cursive, flowing style.

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

October 19, 2021

Board of Education
Houghton Lake Community Schools
Houghton Lake, Michigan

Report on Compliance for Each Major Federal Program

We have audited the compliance of **Houghton Lake Community Schools** (the "District") with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2021. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Independent Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

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Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

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

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HOUGHTON LAKE COMMUNITY SCHOOLS

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2021

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified? yes X no

Significant deficiency(ies) identified? yes X none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Material weakness(es) identified? yes X no

Significant deficiency(ies) identified? yes X none reported

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? yes X no

Identification of major programs and type of auditors' report issued on compliance for each major program:

<u>Assistance Listing Number</u>	<u>Name of Federal Program or Cluster</u>	<u>Type of Report</u>
10.555, 10.559 & 10.579	Child Nutrition Cluster	Unmodified
21.019	Coronavirus Relief Funds	Unmodified

Dollar threshold used to distinguish between Type A and Type B programs: \$ 750,000

Auditee qualified as low-risk auditee? yes X no

HOUGHTON LAKE COMMUNITY SCHOOLS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2021

SECTION II – FINANCIAL STATEMENT FINDINGS

None noted.

HOUGHTON LAKE COMMUNITY SCHOOLS

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2021

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None noted.



HOUGHTON LAKE COMMUNITY SCHOOLS

Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2020

2020-001 - Limited Separation of Duties

During review of the cash receipting process, we noted the individual receiving the deposit, inputting the cash receipts in the accounting system, and making the physical deposits to the banks could potentially be done by the same individual. Further, the deposit slip does not show documentation of the individual taking the deposit to the bank. These functions should be separated and appropriate supporting documentation should include initials/signature of the individuals completing each control activity. Additionally, we noted the same individual has access to the blank unused check stock and is able to post cash disbursements in the accounting system. This finding was corrected in 2021.

2020-002 - Budgeted and Actual General Fund Deficit

The District budgeted a deficit in the general fund. The budgeted expenditures, including an accrued deficit, shall not exceed budgeted revenues, including available unappropriated surplus. We further noted that the general fund was in a deficit at June 30, 2020. This finding was corrected in 2021.

2020-003 – Program Income - Food Service Fund Balance

The District's fund balance exceeded three months' average of operating expenses. The USDA requires that the ending balance of the non-profit school food service fund does not exceed three months' average of operating expenses. The District has submitted its plans to reduce fund balance as required by the Michigan Department of Education.

