

Houghton Lake
Community
Schools
Houghton Lake,
Michigan



Year Ended
June 30, 2022

Financial
Statements and
Single Audit Act
Compliance

Rehmann

HOUGHTON LAKE COMMUNITY SCHOOLS

For the Year Ended June 30, 2022

ADMINISTRATION

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BOARD OF EDUCATION

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HOUGHTON LAKE COMMUNITY SCHOOLS

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Independent Auditors' Report

November 22, 2022

Board of Education
Houghton Lake Community Schools
Houghton Lake, Michigan

Report on the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of **Houghton Lake Community Schools** (the "District"), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the District, as of June 30, 2022, and the respective changes in financial position, and the budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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



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

Independent Auditors' Responsibilities for the Audit of the Financial Statements

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

Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

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

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

Required Supplementary Information

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

Supplementary Information

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

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 November 22, 2022, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Rehmann Lohman 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, 2022. 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	\$ (18,408,933)
• Change in total net position	4,863,294
• Fund balances, governmental funds	3,919,936
• Change in fund balances, governmental funds	1,835,543
• Change in fund balance, general fund	1,777,199
• Installment debt outstanding	2,919,431
• Change in installment debt	(450,282)
• Capital assets, net	7,048,026

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).

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, 2022.

HOUGHTON LAKE COMMUNITY SCHOOLS

Management's Discussion and Analysis

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, which is the District's major fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

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.

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 MPSERS pension and other postemployment benefit plans immediately following the notes to the financial statements.

HOUGHTON LAKE COMMUNITY SCHOOLS

Management's Discussion and Analysis

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 \$18,408,933 at the close of the most recent fiscal year.

	Net Position	
	2022	2021
Assets		
Current and other assets	\$ 5,652,841	\$ 3,758,178
Capital assets, net	7,048,026	7,571,345
	<u>12,700,867</u>	<u>11,329,523</u>
Deferred outflows of resources	<u>4,484,372</u>	<u>7,093,449</u>
Liabilities		
Current and other liabilities	1,750,856	1,694,577
Long-term liabilities	3,255,621	3,761,224
Net pension liability, due in more than one year	15,813,480	26,173,379
Net other postemployment benefits liability, due in more than one year	941,442	3,890,118
	<u>21,761,399</u>	<u>35,519,298</u>
Deferred inflows of resources	<u>13,832,773</u>	<u>6,175,901</u>
Net position		
Net investment in capital assets	4,067,895	4,133,104
Restricted	875,533	833,353
Unrestricted (deficit)	<u>(23,352,361)</u>	<u>(28,238,684)</u>
Total net position	<u>\$ (18,408,933)</u>	<u>\$ (23,272,227)</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 increased \$1,894,663 due to better management of cash flows and some late drawdowns of funds. The District's current and other liabilities remained consistent from the previous year, increasing only \$56,279.

The District's net pension and OPEB liabilities decreased from prior year by \$10,359,899 and \$2,948,676, respectively, as well as the related deferred outflows by \$2,609,077. The deferred inflows related to net pension and OPEB increased by \$7,656,872. These changes were due to higher investment earnings in the deferred inflows which caused there to be less proportionate share percentage.

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 \$4,863,294 during the 2021-2022 school year, compared to an increase of \$2,705,907 during the 2020-2021 school year.

	Change in Net Position	
	2022	2021
Program revenues		
Charges for services	\$ 276,032	\$ 135,669
Operating grants and contributions	6,154,734	5,877,833
General revenues		
Property taxes	9,186,667	9,005,267
Unrestricted state aid	1,774,946	1,715,261
Other	5,074	3,419
Total revenues	<u>17,397,453</u>	<u>16,737,449</u>
Expenses		
Instruction	5,769,287	8,677,302
Supporting services	5,353,517	4,134,626
Food service	931,130	781,174
Community service	30,690	32,790
Interest on long-term debt	95,395	111,162
Unallocated depreciation	354,140	294,488
Total expenses	<u>12,534,159</u>	<u>14,031,542</u>
Change in net position	4,863,294	2,705,907
Net position		
Beginning of year	<u>(23,272,227)</u>	<u>(25,978,134)</u>
End of year	<u><u>\$ (18,408,933)</u></u>	<u><u>\$ (23,272,227)</u></u>

The differences seen above, between 2021-2022 and 2020-2021 revenues is mostly due to an increase in operating grants and contributions and property taxes of \$276,901 and \$181,400, respectively, from the prior year due to an increase in property values around the lake. The decrease in expenses from the prior year is mainly due to the decreases in instruction of \$2,908,015 offset by an increase in supporting services of \$1,218,891 due to no leave payout, no expenditures for GSRP and technology grants for GEERS and 11p were expended in 20/21 for the decrease in instruction. Hired a school nurse, added a behavioral coach, full year instructional coach and purchased some interactive displays for the increase in supporting services.

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 \$3,919,936. 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, \$204,694 is nonspendable for inventory and prepaids, \$418,090 is restricted for debt service and \$385,573 is restricted for the food service program, \$176,919 is committed for the forestry contract classroom project and student/school activity. The remaining fund balance of \$2,734,660 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 \$2,855,012, of which \$114,873 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 20 percent of general fund expenditures. The District had an unassigned fund balance of \$2,734,660 at year-end.

The fund balance of the District's general fund increased \$1,777,199 during the current fiscal year. This is primarily attributable to the District being conservative with our expenditures and maintaining a staffing load that is fitting with our enrollment.

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 more than the final amended budget by \$144 mainly due to taxes being over budget by \$215,523, offset by state sources being under budget by \$135,054. This was a result of variance in tax rate and declining enrollment.

HOUGHTON LAKE COMMUNITY SCHOOLS

Management's Discussion and Analysis

Actual total expenditures were under the final amended budget by \$417,099. The significant fluctuations between actual and budgeted expenditures are as follows:

- Basic programs expenditures were under budget by \$70,348 due to decreased cost for summer school in both buildings.
- Instructional staff expenditures were under budget by \$72,605 due to unable to fill all vacant jobs with qualified staff led to savings with sub costs.
- Operation and maintenance expenditures were under budget by \$85,970 due to savings from not purchasing all budgeted supplies (needs reduced after Covid).
- Central services expenditures were under budget by \$80,440 due to decreased costs in athletics and technology.

The original and final budgets resulted in a positive change in fund balance of \$296,838 and \$1,365,676, respectively. The significant fluctuations between original and final budget are as follows:

- Taxes increased \$241,333 from original to final budget due to increased taxable values.
- State revenues increased \$204,650 from original to final budget due to increase in state aid categoricals.
- Federal revenues increased \$334,363 from original to final budget due to adjustments for carryover of Title Funds.
- Basic programs expenditures decreased \$189,189 from original to final budget due to decreased costs for summer school in both buildings.
- Pupil services expenditures increased \$142,825 from original to final budget due to hired a nurse and increased salaries & benefits for existing staff.
- Instructional staff expenditures increased \$388,523 from original to final budget due to unable to fill all vacant jobs with qualified staff led to savings with sub costs.
- Operation and maintenance expenditures decreased \$587,193 from original to final budget due to savings from not purchasing all budgeted supplies (needs reduced after Covid).
- Pupil transportation expenditures decreased \$140,385 from original to final budget due to compressed bus routes due to lack of bus drivers.

Capital Assets

As of June 30, 2022, the District had \$7,048,026 in net capital assets including site improvements, buildings and improvements, machinery and equipment, and transportation equipment.

	Capital Assets (net of depreciation)	
	2022	2021
Construction in progress	\$ -	\$ 10,703
Site improvements	1,496,595	1,496,595
Buildings and improvements	15,281,476	15,281,476
Machinery and equipment	3,734,524	3,612,514
Transportation equipment	1,758,943	1,938,453
	<u>22,271,538</u>	<u>22,339,741</u>
Less accumulated depreciation	<u>(15,223,512)</u>	<u>(14,768,396)</u>
Total capital assets, net	<u>\$ 7,048,026</u>	<u>\$ 7,571,345</u>

HOUGHTON LAKE COMMUNITY SCHOOLS

Management's Discussion and Analysis

The decrease of \$523,319 from June 30, 2021 to June 30, 2022 is attributable to the current year additions of \$218,307, offset by depreciation expense of \$741,626. Additional information on the District's capital assets can be found in the notes to the financial statements.

Long-term Debt

The long-term obligations for the District decreased from \$3,761,224 at June 30, 2021 to \$3,255,621 at the end of June 30, 2022. The total decrease of \$505,603 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 2022-2023 fiscal year:

- Enrollment being flat
- Staffing levels, step and education attainment
- 2022-23 contracts for staff
- Health insurance projected costs for 2022-23
- Retirement rate payment to ORS
- 2022-23 projected 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, 2022

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 2,449,181
Investments	977,233
Receivables	2,021,733
Inventories	126,729
Prepays	77,965
Capital assets being depreciated, net	<u>7,048,026</u>
Total assets	<u>12,700,867</u>
Deferred outflows of resources	
Deferred charge on bond refunding	68,657
Deferred pension amounts	3,209,469
Deferred OPEB amounts	<u>1,206,246</u>
Total deferred outflows of resources	<u>4,484,372</u>
Liabilities	
Accounts payable and accrued liabilities	1,641,532
Unearned revenue	109,324
Long-term debt:	
Due within one year	517,511
Due in more than one year	2,738,110
Net pension liability, due in more than one year	15,813,480
Net other postemployment benefits liability, due in more than one year	<u>941,442</u>
Total liabilities	<u>21,761,399</u>
Deferred inflows of resources	
Deferred pension amounts	8,865,126
Deferred OPEB amounts	<u>4,967,647</u>
Total deferred inflows of resources	<u>13,832,773</u>
Net position	
Net investment in capital assets	4,067,895
Restricted for:	
Food service	475,394
Debt service	400,139
Unrestricted (deficit)	<u>(23,352,361)</u>
Total net position	<u><u>\$ (18,408,933)</u></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, 2022

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Governmental activities:				
Instruction	\$ 5,769,287	\$ -	\$ 5,086,164	\$ (683,123)
Supporting services	5,353,517	206,576	98,538	(5,048,403)
Food service	931,130	69,456	970,032	108,358
Community service	30,690	-	-	(30,690)
Interest on long-term debt	95,395	-	-	(95,395)
Unallocated depreciation	354,140	-	-	(354,140)
Total	<u>\$ 12,534,159</u>	<u>\$ 276,032</u>	<u>\$ 6,154,734</u>	<u>(6,103,393)</u>
General revenues:				
Property taxes				9,186,667
Unrestricted state aid				1,774,946
Unrestricted investment earnings				5,074
Total general revenues				<u>10,966,687</u>
Change in net position				<u>4,863,294</u>
Net position (deficit), beginning of year				<u>(23,272,227)</u>
Net position (deficit), end of year				<u>\$ (18,408,933)</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, 2022

	General Fund	Nonmajor Governmental Funds	Totals
Assets			
Cash and cash equivalents	\$ 1,852,450	\$ 596,731	\$ 2,449,181
Investments	587,039	390,194	977,233
Accounts receivable	145	-	145
Due from other governments	1,982,983	38,605	2,021,588
Due from other funds	-	152	152
Inventories	108,908	17,821	126,729
Prepays	5,965	72,000	77,965
Total assets	\$ 4,537,490	\$ 1,115,503	\$ 5,652,993
Liabilities			
Accounts payable	\$ 30,126	\$ 50,579	\$ 80,705
Salaries and benefits payable	1,542,876	-	1,542,876
Due to other funds	152	-	152
Unearned revenue	109,324	-	109,324
Total liabilities	1,682,478	50,579	1,733,057
Fund balances			
Nonspendable	114,873	89,821	204,694
Restricted	-	803,663	803,663
Committed	5,479	171,440	176,919
Unassigned	2,734,660	-	2,734,660
Total fund balances	2,855,012	1,064,924	3,919,936
Total liabilities and fund balances	\$ 4,537,490	\$ 1,115,503	\$ 5,652,993

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, 2022

Fund balances - total governmental funds \$ 3,919,936

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 being depreciated, net 7,048,026

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 (15,813,480)

Net other postemployment benefit liability (941,442)

Deferred inflows related to the net pension and OPEB liabilities (13,832,773)

Deferred outflows related to the net pension and OPEB liabilities 4,415,715

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 (2,919,431)

Bond premiums (129,357)

Deferred charge on refunding 68,657

Accrued interest on bonds payable and installment purchase agreement (17,951)

Compensated absences (206,833)

Net position (deficit) of governmental activities \$ (18,408,933)

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, 2022

	General Fund	Nonmajor Governmental Funds	Totals
Revenues			
Local sources:			
Taxes	\$ 8,719,606	\$ 467,061	\$ 9,186,667
Charges for services	58,436	-	58,436
Food service	-	217,596	217,596
Interest	5,074	-	5,074
Other	98,538	-	98,538
State sources	4,067,906	30,567	4,098,473
Federal sources	2,793,204	939,465	3,732,669
Total revenues	15,742,764	1,654,689	17,397,453
Expenditures			
Current:			
Instruction	7,477,878	-	7,477,878
Supporting services	6,436,731	129,135	6,565,866
Food service activities	-	929,079	929,079
Community services	30,690	-	30,690
Debt service:			
Principal	30,282	420,000	450,282
Interest and fiscal charges	4,264	101,800	106,064
Capital outlay	-	2,051	2,051
Total expenditures	13,979,845	1,582,065	15,561,910
Revenues over expenditures	1,762,919	72,624	1,835,543
Other financing sources (uses)			
Transfers in	14,280	-	14,280
Transfers out	-	(14,280)	(14,280)
Total other financing sources (uses)	14,280	(14,280)	-
Net change in fund balances	1,777,199	58,344	1,835,543
Fund balances, beginning of year	1,077,813	1,006,580	2,084,393
Fund balances, end of year	\$ 2,855,012	\$ 1,064,924	\$ 3,919,936

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, 2022

Net change in fund balances - total governmental funds \$ 1,835,543

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	218,307
Depreciation expense	(741,626)

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	450,282
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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 and installment purchase agreement	2,841
Amortization of bond premium	21,559
Amortization of deferred charges on refunding	(13,731)
Change in net pension liabilities and related deferred amounts	1,683,338
Change in net OPEB liabilities and related deferred amounts	1,373,019
Change in the accrual for compensated absences	33,762

Change in net position of governmental activities \$ 4,863,294

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, 2022

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Local sources:				
Taxes	\$ 8,262,750	\$ 8,504,083	\$ 8,719,606	\$ 215,523
Charges for services	40,000	52,818	58,436	5,618
Interest	7,500	1,700	5,074	3,374
Other	93,500	94,050	98,538	4,488
State sources	3,998,310	4,202,960	4,067,906	(135,054)
Federal sources	2,552,646	2,887,009	2,793,204	(93,805)
Total revenues	<u>14,954,706</u>	<u>15,742,620</u>	<u>15,742,764</u>	<u>144</u>
Expenditures				
Current:				
Instruction:				
Basic programs	5,814,035	5,624,846	5,554,498	(70,348)
Added needs	1,927,349	1,927,420	1,870,572	(56,848)
Adult education	56,541	55,420	52,808	(2,612)
	<u>7,797,925</u>	<u>7,607,686</u>	<u>7,477,878</u>	<u>(129,808)</u>
Supporting services:				
Pupil services	703,331	846,156	824,971	(21,185)
Instructional staff	575,740	964,263	891,658	(72,605)
General administration	318,635	297,553	288,007	(9,546)
School administration	961,794	1,045,417	991,652	(53,765)
Business office	318,933	337,044	406,575	69,531
Operation and maintenance	2,046,302	1,459,109	1,373,139	(85,970)
Pupil transportation	1,190,535	1,050,150	1,022,611	(27,539)
Central services	702,003	718,558	638,118	(80,440)
	<u>6,817,273</u>	<u>6,718,250</u>	<u>6,436,731</u>	<u>(281,519)</u>
Community services	28,123	36,461	30,690	(5,771)
Debt service:				
Principal	30,282	30,282	30,282	-
Interest and fiscal charges	4,265	4,265	4,264	(1)
	<u>34,547</u>	<u>34,547</u>	<u>34,546</u>	<u>(1)</u>
Total expenditures	<u>14,677,868</u>	<u>14,396,944</u>	<u>13,979,845</u>	<u>(417,099)</u>
Revenues over expenditures	276,838	1,345,676	1,762,919	417,243
Other financing sources				
Transfers in	20,000	20,000	14,280	(5,720)
Net change in fund balance	296,838	1,365,676	1,777,199	411,523
Fund balance, beginning of year	1,077,813	1,077,813	1,077,813	-
Fund balance, end of year	<u>\$ 1,374,651</u>	<u>\$ 2,443,489</u>	<u>\$ 2,855,012</u>	<u>\$ 411,523</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, 2022.

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 fund:

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.

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 and student activities.

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

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.

HOUGHTON LAKE COMMUNITY SCHOOLS

Notes to Financial Statements

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.

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 assets 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.

HOUGHTON LAKE COMMUNITY SCHOOLS

Notes to Financial Statements

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.

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 assets 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 reports deferred inflows of resources related to pension and other postemployment benefit costs.

HOUGHTON LAKE COMMUNITY SCHOOLS

Notes to Financial Statements

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.

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.

HOUGHTON LAKE COMMUNITY SCHOOLS

Notes to Financial Statements

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 27% of the District's general fund revenue during the 2022 fiscal year.

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, 2022, the District incurred expenditures in excess of amounts appropriated, as follows:

	Total Appropriations	Amount of Expenditures	Budget Variance
General Fund			
Current:			
Supporting services:			
Business office	\$ 337,044	\$ 406,575	\$ 69,531

HOUGHTON LAKE COMMUNITY SCHOOLS

Notes to Financial Statements

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, 2022:

Statement of Net Position	
Cash and cash equivalents	\$ 2,449,181
Investments	<u>977,233</u>
Total	<u>\$ 3,426,414</u>
Deposits	\$ 2,448,863
Investments	977,233
Cash on hand	<u>318</u>
Total	<u>\$ 3,426,414</u>

As of June 30, 2022, the District had the following investments:

Investment Type	Amortized Cost	Maturity	Rating
MILAF External Investment pool - MIMAX	<u>\$ 977,233</u>	n/a	S & P AAAM

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, 2022, 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, \$2,045,782 of the District’s bank balance of \$2,399,257 was exposed to credit risk because it was uninsured and uncollateralized.

HOUGHTON LAKE COMMUNITY SCHOOLS

Notes to Financial Statements

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.

5. RECEIVABLES

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

	General Fund	Nonmajor Governmental Funds	Total
Accounts receivable	\$ 145	\$ -	\$ 145
Due from other governments	1,982,983	38,605	2,021,588
	<u>\$ 1,983,128</u>	<u>\$ 38,605</u>	<u>\$ 2,021,733</u>

HOUGHTON LAKE COMMUNITY SCHOOLS

Notes to Financial Statements

6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2022, was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Governmental activities					
Capital assets not being depreciated:					
Construction in progress	\$ 10,703	\$ 19,200	\$ -	\$ (29,903)	\$ -
Capital assets being depreciated:					
Site improvements	1,496,595	-	-	-	1,496,595
Buildings and improvements	15,281,476	-	-	-	15,281,476
Machinery and equipment	3,612,514	92,107	-	29,903	3,734,524
Transportation equipment	1,938,453	107,000	(286,510)	-	1,758,943
	<u>22,329,038</u>	<u>199,107</u>	<u>(286,510)</u>	<u>29,903</u>	<u>22,271,538</u>
Less accumulated depreciation for:					
Site improvements	(779,829)	(71,548)	-	-	(851,377)
Buildings and improvements	(10,767,851)	(166,305)	-	-	(10,934,156)
Machinery and equipment	(1,955,899)	(356,190)	-	-	(2,312,089)
Transportation equipment	(1,264,817)	(147,583)	286,510	-	(1,125,890)
	<u>(14,768,396)</u>	<u>(741,626)</u>	<u>286,510</u>	<u>-</u>	<u>(15,223,512)</u>
Capital assets being depreciated, net	<u>7,560,642</u>	<u>(542,519)</u>	<u>-</u>	<u>29,903</u>	<u>7,048,026</u>
Governmental activities capital assets, net	<u>\$ 7,571,345</u>	<u>\$ (523,319)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,048,026</u>

HOUGHTON LAKE COMMUNITY SCHOOLS

Notes to Financial Statements

Depreciation expense was charged to functions / programs as follows:

Governmental activities:

Instruction	\$ 321,110
Support services	66,376
Unallocated	<u>354,140</u>
	<u>\$ 741,626</u>

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

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2022 are as follows:

	General Fund	Nonmajor Governmental Funds	Total
Fund financial statements			
Accounts payable	\$ 30,126	\$ 50,579	\$ 80,705
Salaries and benefits payable	<u>1,542,876</u>	<u>-</u>	<u>1,542,876</u>
	<u>\$ 1,573,002</u>	<u>\$ 50,579</u>	1,623,581
Government-wide financial statements			
Accrued interest on bonds payable			<u>17,951</u>
Total accounts payable and accrued liabilities			<u>\$ 1,641,532</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, 2022, interfund receivables and payables in the fund financial statements consisted of the following:

	Due from Other Funds	Due to Other Funds
General fund	\$ -	\$ 152
Nonmajor governmental funds	152	-
	<u>\$ 152</u>	<u>\$ 152</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, 2022, interfund transfers consisted of the following:

	Transfers In	Transfers Out
General Fund	\$ 14,280	\$ -
Nonmajor governmental funds	-	14,280
	<u>\$ 14,280</u>	<u>\$ 14,280</u>

For the year ended June 30, 2022, the District transferred funds from the food service fund to the general fund for reimbursement for bonus' paid to food service staff.

HOUGHTON LAKE COMMUNITY SCHOOLS

Notes to Financial Statements

9. LONG-TERM DEBT

The following is a summary of the long-term debt activity of the District for the year ended June 30, 2022:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General obligation bonds	\$ 3,210,000	\$ -	\$ (420,000)	\$ 2,790,000	\$ 430,000
Direct placement:					
Installment purchase agreement	159,713	-	(30,282)	129,431	31,090
Subtotal	3,369,713	-	(450,282)	2,919,431	461,090
Bond premium	150,916	-	(21,559)	129,357	21,559
Compensated absences	240,595	-	(33,762)	206,833	34,862
	<u>\$ 3,761,224</u>	<u>\$ -</u>	<u>\$ (505,603)</u>	<u>\$ 3,255,621</u>	<u>\$ 517,511</u>

Compensated absences are generally liquidated by the general fund.

Bonds and installment purchase agreement payable at June 30, 2022, 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%.

\$ 2,790,000

\$191,086 installment purchase agreement; due in annual installments ranging from \$30,282 to \$33,648 through July 20, 2025; interest charged at 2.67%.

129,431

Total

\$ 2,919,431

HOUGHTON LAKE COMMUNITY SCHOOLS

Notes to Financial Statements

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
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	1,774
2026	470,000	48,650	33,648	898
2027	485,000	34,550	-	-
2028	500,000	20,000	-	-
	<u>\$ 2,790,000</u>	<u>\$ 330,150</u>	<u>\$ 129,431</u>	<u>\$ 8,754</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, 2022, \$2,995,000 of bonds outstanding are considered defeased.

10. 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.

11. 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.

HOUGHTON LAKE COMMUNITY SCHOOLS

Notes to Financial Statements

12. 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.

13. 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.

HOUGHTON LAKE COMMUNITY SCHOOLS

Notes to Financial Statements

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.

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 MPERS 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.

HOUGHTON LAKE COMMUNITY SCHOOLS

Notes to Financial Statements

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

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

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, 2020 valuation will be amortized over an 18-year period beginning October 1, 2020 and ending September 30, 2038.

The table below summarizes pension contribution rates in effect for fiscal year 2022:

Benefit Structure	Member Rates	Employer Rates
Basic	0.00% - 4.00%	19.78% - 20.14%
Member Investment Plan (MIP)	3.00% - 7.00%	19.78% - 20.14%
Pension Plus	3.00% - 6.40%	16.82% - 17.22%
Pension Plus 2	6.20%	19.59% - 19.93%
Defined Contribution	0.00%	13.39% - 13.73%

For the year ended June 30, 2022, required and actual contributions from the District to the pension plan were \$2,090,463, which included \$983,229, 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 2022:

Benefit Structure	Member Rates	Employer Rates
Premium Subsidy	3.00%	8.09% - 8.43%
Personal Healthcare Fund (PHF)	0.00%	7.23% - 7.57%

For the year ended June 30, 2022, required and actual contributions from the District to the OPEB plan were \$464,953.

The table below summarizes defined contribution rates in effect for fiscal year 2022:

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, 2022, required and actual contributions from the District for those members with a defined contribution benefit were \$49,818.

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

At June 30, 2022, the District reported a liability of \$15,813,480 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2020. 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, 2021, the District’s proportion was 0.06679%, which was a decrease of 0.00940% from its proportion measured as of September 30, 2020.

HOUGHTON LAKE COMMUNITY SCHOOLS

Notes to Financial Statements

For the year ended June 30, 2022, the District recognized pension expense of \$454,159. At June 30, 2022, 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	\$ 244,958	\$ 93,123	\$ 151,835
Changes in assumptions	996,825	-	996,825
Net difference between projected and actual earnings on pension plan investments	-	5,083,983	(5,083,983)
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	3,688,020	(3,688,020)
	<u>1,241,783</u>	<u>8,865,126</u>	<u>(7,623,343)</u>
District contributions subsequent to the measurement date	1,967,686	-	1,967,686
Total	<u>\$ 3,209,469</u>	<u>\$ 8,865,126</u>	<u>\$ (5,655,657)</u>

Changes in assumptions. In 2022, the payroll growth assumption for amortization purposes used in determining the fiscal year 2023 employer contributions decreased from 3.0% to 2.5%.

The amount 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, 2023. 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
2023	\$ (1,780,621)
2024	(2,093,354)
2025	(2,097,555)
2026	<u>(1,651,813)</u>
Total	<u>\$ (7,623,343)</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, 2022, the District reported a liability of \$941,442 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2020. 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, 2021, the District's proportion was 0.06168% which was a decrease of 0.01093% from its proportion measured as of September 30, 2020.

For the year ended June 30, 2022, the District recognized OPEB benefit of \$(893,258). At June 30, 2022, 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	\$ -	\$ 2,687,278	\$ (2,687,278)
Changes in assumptions	786,998	117,764	669,234
Net difference between projected and actual earnings on OPEB plan investments	-	709,582	(709,582)
Changes in proportion and differences between employer contributions and proportionate share of contributions	7,929	1,453,023	(1,445,094)
	<u>794,927</u>	<u>4,967,647</u>	<u>(4,172,720)</u>
District contributions subsequent to the measurement date	411,319	-	411,319
Total	<u>\$ 1,206,246</u>	<u>\$ 4,967,647</u>	<u>\$ (3,761,401)</u>

Changes in assumptions. In 2022, the payroll growth assumption for amortization purposes used in determining the fiscal year 2023 employer contributions decreased from 3.0% to 2.5%. The healthcare cost trend rate used in the September 30, 2020 actuarial valuation increased to 7.75%.

HOUGHTON LAKE COMMUNITY SCHOOLS

Notes to Financial Statements

The amount 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, 2023. 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
2023	\$ (1,076,672)
2024	(1,005,154)
2025	(910,425)
2026	(811,707)
2027	(325,991)
Thereafter	<u>(42,771)</u>
Total	<u>\$ (4,172,720)</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, 2020 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%

HOUGHTON LAKE COMMUNITY SCHOOLS

Notes to Financial Statements

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	7.75% 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.
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, 2021, are based on the results of an actuarial valuation date of September 30, 2020, and rolled forward using generally accepted actuarial procedures, including the experience study. The recognition period for pension liabilities is 4.4367 years which is the average of the expected remaining service lives of all employees. The recognition period for OPEB liabilities is 6.1312 years which is the average of the expected remaining service lives of all employees. The recognition period for assets is 5 years.

HOUGHTON LAKE COMMUNITY SCHOOLS

Notes to Financial Statements

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, 2021, 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%	5.09%	1.27%
Private equity pools	16.00%	8.58%	1.37%
International equity pools	15.00%	7.08%	1.06%
Fixed income pools	10.50%	-0.73%	-0.08%
Real estate and infrastructure pools	10.00%	5.12%	0.51%
Absolute return pools	9.00%	2.42%	0.22%
Real return/opportunistic pools	12.50%	5.73%	0.72%
Short-term investment pools	2.00%	-1.29%	-0.03%
	<u>100.00%</u>		5.04%
Inflation			2.00%
Risk adjustment			<u>-0.24%</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, 2021, 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%	5.09%	1.27%
Private equity pools	16.00%	8.58%	1.37%
International equity pools	15.00%	7.08%	1.06%
Fixed income pools	10.50%	-0.73%	-0.08%
Real estate and infrastructure pools	10.00%	5.12%	0.51%
Absolute return pools	9.00%	2.42%	0.22%
Real return/opportunistic pools	12.50%	5.73%	0.72%
Short-term investment pools	2.00%	-1.29%	-0.03%
	<u>100.00%</u>		5.04%
Inflation			2.00%
Risk adjustment			<u>-0.09%</u>
Investment rate of return			<u><u>6.95%</u></u>

Rate of Return

For the fiscal year ended September 30, 2021, the annual money-weighted rate of return on pension and OPEB plan investments, net of pension and OPEB plan investment expense, was 27.30% and 27.14%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

HOUGHTON LAKE COMMUNITY SCHOOLS

Notes to Financial Statements

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	\$ 22,608,988	\$ 15,813,480	\$ 10,179,559
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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	\$ 1,749,368	\$ 941,442	\$ 255,800
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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 (6.00%)	Current Healthcare Cost Trend Rate (7.00%)	1% Increase (8.50%)
District's proportionate share of the net OPEB liability	\$ 229,139	\$ 941,442	\$ 1,742,867

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, 2022, the District reported a payable of \$378,203 for the outstanding amount of pension contributions to the Plan required for the year ended June 30, 2022.

Payable to the OPEB Plan

At June 30, 2022, the District reported a payable of \$67,070 for the outstanding amount of OPEB contributions to the Plan required for the year ended June 30, 2022.

HOUGHTON LAKE COMMUNITY SCHOOLS

Notes to Financial Statements

14. FUND BALANCE - GOVERNMENTAL FUNDS

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	Nonmajor Governmental Funds	Total
Nonspendable:			
Inventories	\$ 108,908	\$ 17,821	\$ 126,729
Prepays	5,965	72,000	77,965
Total nonspendable	<u>114,873</u>	<u>89,821</u>	<u>204,694</u>
Restricted for:			
Debt service	-	418,090	418,090
Food service	-	385,573	385,573
Total restricted	<u>-</u>	<u>803,663</u>	<u>803,663</u>
Committed for:			
Students/school	-	171,440	171,440
Forestry contract classroom project	5,479	-	5,479
Total committed	<u>5,479</u>	<u>171,440</u>	<u>176,919</u>
Unassigned	<u>2,734,660</u>	<u>-</u>	<u>2,734,660</u>
Total fund balances - governmental funds	<u>\$ 2,855,012</u>	<u>\$ 1,064,924</u>	<u>\$ 3,919,936</u>

HOUGHTON LAKE COMMUNITY SCHOOLS

Notes to Financial Statements

15. NET INVESTMENT IN CAPITAL ASSETS

The composition of the District's net investment in capital assets as of June 30, 2022, was as follows:

	Governmental Activities
Capital assets:	
Being depreciated, net	<u>\$ 7,048,026</u>
Related debt:	
Bonds payable and installment purchase agreement	2,919,431
Bond premium	129,357
Deferred loss	<u>(68,657)</u>
Total related debt	<u>2,980,131</u>
Net investment in capital assets	<u><u>\$ 4,067,895</u></u>

16. 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 expended \$1,298,660 during 2022 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.

Additionally, other District revenues have remained steady throughout the pandemic and the economy continues to recover at a robust pace. While nobody can predict the future, additional Federal funding, strong revenue performance and targeted expenditure control should work to mitigate any significant financial issues facing the District as a result of the pandemic going forward.

17. SUBSEQUENT EVENTS

Subsequent to year-end, the District entered into a contract for architectural and engineering services in the amount of \$317,000 for the beginning phases of various projects to be completed in fiscal year 2022 using ESSER funding.



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,			
	2022	2021	2020	2019
District's proportionate share of the net pension liability	\$ 15,813,480	\$ 26,173,379	\$ 27,729,985	\$ 26,216,455
District's proportion of the net pension liability	0.06679%	0.07619%	0.08373%	0.08721%
District's covered payroll	\$ 5,633,951	\$ 6,485,334	\$ 7,161,989	\$ 7,392,020
District's proportionate share of the net pension liability as a percentage of its covered payroll	280.68%	403.58%	387.18%	354.66%
Plan fiduciary net position as a percentage of the total pension liability	72.60%	59.72%	60.31%	62.36%

See notes to required supplementary information.



Year Ended June 30,			
2018	2017	2016	2015
\$ 22,759,611	\$ 21,407,815	\$ 19,979,985	\$ 17,832,362
0.08783%	0.08581%	0.08180%	0.08096%
\$ 7,283,577	\$ 7,406,904	\$ 6,822,821	\$ 6,840,439
312.48%	289.03%	292.84%	260.69%
64.21%	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,			
	2022	2021	2020	2019
Statutorily required contribution	\$ 2,090,463	\$ 1,961,236	\$ 2,095,461	\$ 2,144,733
Contributions in relation to the statutorily required contribution	<u>(2,090,463)</u>	<u>(1,961,236)</u>	<u>(2,095,461)</u>	<u>(2,144,733)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 5,892,303	\$ 5,655,548	\$ 6,713,785	\$ 7,270,107
Contributions as a percentage of covered payroll	35.48%	34.68%	31.21%	29.50%

See notes to required supplementary information.



Year Ended June 30,			
2018	2017	2016	2015
\$ 2,102,459	\$ 1,973,644	\$ 1,809,685	\$ 1,492,289
<u>(2,102,459)</u>	<u>(1,973,644)</u>	<u>(1,809,685)</u>	<u>(1,492,289)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 7,372,709	\$ 7,240,173	\$ 7,143,586	\$ 6,688,782
28.52%	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,		
	2022	2021	2020
District's proportionate share of the net OPEB liability	\$ 941,442	\$ 3,890,118	\$ 5,854,740
District's proportion of the net OPEB liability	0.06168%	0.07261%	0.08157%
District's covered payroll	\$ 5,633,951	\$ 6,485,334	\$ 7,161,989
District's proportionate share of the net OPEB liability as a percentage of its covered payroll	16.71%	59.98%	81.75%
Plan fiduciary net position as a percentage of the total OPEB liability	87.33%	59.44%	48.46%

See notes to required supplementary information.



Year Ended June 30,	
2019	2018
\$ 6,882,097	\$ 7,786,824
0.08658%	0.08793%
\$ 7,392,020	\$ 7,283,577
93.10%	106.91%
42.95%	36.39%

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,		
	2022	2021	2020
Statutorily required contribution	\$ 464,953	\$ 446,821	\$ 533,462
Contributions in relation to the statutorily required contribution	<u>(464,953)</u>	<u>(446,821)</u>	<u>533,462</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 5,892,303	\$ 5,655,548	\$ 6,713,785
Contributions as a percentage of covered payroll	7.89%	7.90%	7.95%

See notes to required supplementary information.



Year Ended June 30,	
2019	2018
\$ 542,754	\$ 554,930
<u>(542,754)</u>	<u>(554,930)</u>
<u>\$ -</u>	<u>\$ -</u>
\$ 7,270,107	\$ 7,372,709
7.47%	7.53%

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 data 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:

- 2022 - The payroll growth assumption for amortization purposes used in determining the fiscal year 2023 employer contributions decreased from 3.0% to 2.5%.
- 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:

- 2022 - The payroll growth assumption for amortization purposes used in determining the fiscal year 2023 employer contributions decreased from 3.0% to 2.5%. The healthcare cost trend rate used in the September 30, 2020 actuarial valuation increased to 7.75%.
- 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%.

**COMBINING FUND
FINANCIAL STATEMENTS**

HOUGHTON LAKE COMMUNITY SCHOOLS

Combining Balance Sheet

Nonmajor Governmental Funds

June 30, 2022

	Special Revenue		Debt Service	Totals
	Food Service	Student/School Activity	2017 Refunding Bonds	
Assets				
Cash and cash equivalents	\$ -	\$ 178,793	\$ 417,938	\$ 596,731
Investments	390,194	-	-	390,194
Due from other governments	38,605	-	-	38,605
Due from other funds	-	-	152	152
Inventories	17,821	-	-	17,821
Prepays	72,000	-	-	72,000
Total assets	<u>\$ 518,620</u>	<u>\$ 178,793</u>	<u>\$ 418,090</u>	<u>\$ 1,115,503</u>
Liabilities				
Accounts payable	\$ 43,226	\$ 7,353	\$ -	\$ 50,579
Fund balances				
Nonspendable	89,821	-	-	89,821
Restricted	385,573	-	418,090	803,663
Committed	-	171,440	-	171,440
Total fund balances	<u>475,394</u>	<u>171,440</u>	<u>418,090</u>	<u>1,064,924</u>
Total liabilities and fund balances	<u>\$ 518,620</u>	<u>\$ 178,793</u>	<u>\$ 418,090</u>	<u>\$ 1,115,503</u>

HOUGHTON LAKE COMMUNITY SCHOOLS

Combining Statement of Revenues, Expenditures

and Changes in Fund Balances - Nonmajor Governmental Funds
For the Year Ended June 30, 2022

	Special Revenue		Debt Service	Totals
	Food Service	Student/School Activity	2017 Refunding Bonds	
Revenues				
Local sources:				
Taxes	\$ -	\$ -	\$ 467,061	\$ 467,061
Food service	69,456	148,140	-	217,596
State sources	30,567	-	-	30,567
Federal sources	939,465	-	-	939,465
Total revenues	1,039,488	148,140	467,061	1,654,689
Expenditures				
Current:				
Food service activities	929,079	-	-	929,079
Supporting services	-	129,135	-	129,135
Debt service:				
Principal	-	-	420,000	420,000
Interest and fiscal charges	-	-	101,800	101,800
Capital outlay	2,051	-	-	2,051
Total expenditures	931,130	129,135	521,800	1,582,065
Revenues over (under) expenditures	108,358	19,005	(54,739)	72,624
Other financing uses				
Transfers out	(14,280)	-	-	(14,280)
Net change in fund balances	94,078	19,005	(54,739)	58,344
Fund balances, beginning of year	381,316	152,435	472,829	1,006,580
Fund balances, end of year	\$ 475,394	\$ 171,440	\$ 418,090	\$ 1,064,924

SUPPLEMENTAL INFORMATION

HOUGHTON LAKE COMMUNITY SCHOOLS

Schedule of Outstanding Bonded Indebtedness

2017 Refunding Bonds

June 30, 2022

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 Principal Maturity	Total Fiscal Year Requirements
		November 1	May 1	May 1	
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>\$ 165,075</u>	<u>\$ 165,075</u>	<u>\$ 2,790,000</u>	<u>\$ 3,120,150</u>

SINGLE AUDIT ACT COMPLIANCE

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

November 22, 2022

Board of Education
Houghton Lake Community Schools
Houghton Lake, Michigan

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of **Houghton Lake Community Schools** (the "District") as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated November 22, 2022, 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 Lobson LLC



HOUGHTON LAKE COMMUNITY SCHOOLS

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2022

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:					
Summer Feeding School Program					
SSO- Breakfast	10.553	MDE	211971	245,480	-
SSO- Breakfast	10.553	MDE	221971	14,800	-
National School Lunch Program:					
SSO- Lunch	10.555	MDE	211961	62,103	-
SSO- Lunch	10.555	MDE	221960	3,338	-
SSO- Lunch	10.555	MDE	221961	471,219	-
SSO- Afterschool Snacks	10.555	MDE	211980	15,393	13,688
SSO- Afterschool Snacks	10.555	MDE	221980	14,541	-
SSO- Supply Chain Assistance	10.555	MDE	220910	25,605	-
Non-cash assistance (commodities):					
National School Lunch - Entitlement	10.555	MDE	n/a	58,433	-
Summer Food Service Program Operating (SFSP)					
Summer Food Service Program Operating (SFSP)	10.559	MDE	210904	608,739	608,739
Summer Food Service Program Operating (SFSP)	10.559	MDE	210904	103,154	-
Total Child Nutrition Cluster					
COVID-19 - Pandemic EBT Local Level Costs	10.649	MDE	210980	3,063	-
Total U.S. Department of Agriculture					
U.S. Department of Education					
Title I, Part A - Regular	84.010	MDE	211530-2021	865,661	592,526
Title I, Part A - Regular	84.010	MDE	221530-2122	980,583	-
Special Education Cluster (IDEA):					
IDEA Special Education Grants	84.027A	COORISD	210450-2122	445,448	-
Title V, Part B	84.358B	MDE	220660-2122	27,458	-
Title II, Part A - Regular	84.367	MDE	210520-2021	131,644	52,375
Title II, Part A - Regular	84.367	MDE	220520-2122	161,638	-
Title IV, Part A - Regular	84.424	MDE	220750-2122	58,147	-
Education Stabilization Fund:					
COVID-19 - Governor's Emergency Education Relief	84.425C	MDE	201200-2021	96,145	96,145
COVID-19 - Governor's Emergency Education Relief	84.425C	MDE	211202-2122	7,000	-
COVID-19 - ESSER I Formula Funds	84.425D	MDE	203710-1920	584,702	426,030
COVID-19 - ESSER II	84.425D	MDE	213712-2021	2,626,155	-
COVID-19 - ESSER Credit Recovery	84.425D	MDE	213742-2122	41,250	-
COVID-19 - ESSER III Formula Funds - American Rescue Plan	84.425U	MDE	213713-2122	5,902,167	-
Total U.S. Department of Education					
Total Federal Financial Assistance					

See notes to schedule of expenditures of federal awards.

Accrued Revenue at June 30, 2021	Current Year Cash Received	Expenditures Year Ended June 30, 2022	Adjustments	Accrued Revenue at June 30, 2022
-	233,265	245,480	-	\$ 12,215
-	-	2,585	-	2,585
-	233,265	248,065	-	14,800
-	62,103	62,103	-	-
-	-	3,338	-	3,338
-	449,036	471,219	-	22,183
1,471	3,176	1,705	-	-
-	13,836	14,541	-	705
-	25,605	25,605	-	-
-	58,433	58,433	-	-
1,471	612,189	636,944	-	26,226
48,698	48,698	-	-	-
-	54,456	54,456	-	-
-	103,154	54,456	-	-
1,471	948,608	939,465	-	41,026
-	3,063	3,063	-	-
1,471	951,671	942,528	-	41,026
199,303	236,215	36,912	-	-
-	506,884	849,931	-	343,047
199,303	743,099	886,843	-	343,047
-	292,989	445,448	-	152,459
-	5,330	12,580	-	7,250
4,914	8,291	3,377	-	-
-	76,145	89,702	-	13,557
4,914	84,436	93,079	-	13,557
-	37,517	56,594	-	19,077
-	(12)	(12)	-	-
-	7,000	7,000	-	-
-	6,988	6,988	-	-
50,527	209,199	158,672	-	-
-	326,561	808,707	-	482,146
-	29,949	32,492	-	2,543
50,527	565,709	999,871	-	484,689
-	203,534	288,738	-	85,204
254,744	1,939,602	2,790,141	-	1,105,283
\$ 256,215	\$ 2,891,273	\$ 3,732,669	\$ -	\$ 1,146,309

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, 2022. 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
COORISD	Crawford Oscoda Ogemaw Roscommon Intermediate School District
MDE	Michigan Department of Education



**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***

November 22, 2022

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, the major fund, and the remaining fund information of ***Houghton Lake Community Schools*** (the "District"), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 22, 2022.

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.



Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs, as items 2022-001 and -002 that we consider to be material weaknesses.

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*.

Houghton Lake Community School's Response to Findings

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 Johnson 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

November 22, 2022

Board of Education
Houghton Lake Community Schools
Houghton Lake, Michigan

Report on Compliance for Each Major Federal Program

Opinion on 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, 2022. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, 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, 2022.

Basis for Opinion on Each Major Federal Program

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

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



Responsibilities of Management for Compliance

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

Independent Auditors' Responsibilities for the Audit of Compliance

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

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

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

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

Report on Internal Control Over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or 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 Independent Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

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

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.

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

HOUGHTON LAKE COMMUNITY SCHOOLS

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2022

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?

X yes 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>
84.010	Title I Grants to Local Educational Agencies	Unmodified
84.425	Education Stabilization Fund	Unmodified

Dollar threshold used to distinguish between Type A and Type B programs:

\$ 750,000

Auditee qualified as low-risk auditee?

X yes no

HOUGHTON LAKE COMMUNITY SCHOOLS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2022

SECTION II – FINANCIAL STATEMENT FINDINGS

2022-001 – Material Audit Adjustments

Finding Type. Material Weakness in Internal Control over Financial Reporting.

Criteria. Management is responsible for maintaining its accounting records in accordance with generally accepted accounting principles (GAAP).

Condition. During the audit, multiple versions of the trial balance and adjustments were provided in order to reach proper year-end balances. The majority of the adjustments that were made to the trial balance were identified by the auditors, while a few were identified by the District.

Cause. This condition was the result of turnover in key finance positions and internal controls not detecting all adjustments necessary to properly record year-end balances.

Effect. As a result of this condition, the District's accounting records were initially misstated by amounts material to the financial statements. Specifically, the following areas were misstated:

- General fund accounts payable and related expenditures were understated by approximately \$87,280. Nonmajor governmental funds accounts payable and related expenditures were understated by approximately \$47,419.
- General fund accrued liabilities and related expenditures were understated by approximately \$36,076.
- General fund due to other governments and related expenditures were understated by approximately \$91,473.
- General fund unearned revenue was overstated and related state revenue was understated by approximately \$60,560.
- Food service inventory was understated and related expenditures were overstated by approximately \$4,950.

Recommendation. We recommend that the District prepare, review, and reconcile all year-end schedules that are used in financial reporting prior to audit fieldwork.

View of Responsible Officials. Business Manager will make sure that all journal entries are posted, the GL is reviewed, and year-end schedules are reconciled before the Audit Fieldwork.

HOUGHTON LAKE COMMUNITY SCHOOLS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2022

2022-002 – Preparation of the Schedule of Expenditures of Federal Awards (SEFA)

Finding Type. Material Weakness in Internal Control over Financial Reporting.

Criteria. The Uniform Guidance requires that the District identify in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and Federal award identification must include, as applicable, the assistance listing number, Federal award identification number and year, name of the Federal agency, and name of the pass-through entity, if any. In addition, the District is required to "prepare appropriate financial statements, including the schedule of expenditures of Federal awards (SEFA) in accordance with the Uniform Guidance".

Condition. While management was able to provide us with a partially complete SEFA during our audit fieldwork, a material adjustment to the SEFA was ultimately required to properly present federal grants. The original SEFA provided by management was understated by approximately \$857,700.

Cause. This condition was the result of turnover in key finance personnel and internal controls did not detect all adjustments necessary to properly record federal revenue or prepare an appropriate SEFA.

Effect. As a result of this condition, the District's schedule of expenditures of federal awards was initially misstated by a material amount.

Recommendation. We recommend that the District evaluate its processes to ensure that all federal programs, and the required information related to those programs, are appropriately included on the Schedule. In addition, grant tie outs should be completed and reviewed to verify that expenditures, revenues, and the related receivables and unearned revenues for grants are properly recorded.

View of Responsible Officials. Business Manager will make sure that all Federal Revenues are accounted for by reviewing the GL to make sure that the revenues and expenditures tie out and the funds are appropriately recorded on the SEFA.

HOUGHTON LAKE COMMUNITY SCHOOLS

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2022

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, 2021

None noted.



Houghton Lake Community Schools

4433 West Houghton Lake Drive • Houghton Lake, Michigan 48629

Houghton Lake Community Schools
Corrective Action Plan
6/30/2022

Finding #2022-001 Material Audit Adjustments

Finding Summary: During the audit, multiple versions of the trial balance and adjustments were provided in order to reach proper year-end balances. The majority of the adjustments that were made to the trial balance were identified by the auditors, while a few were identified by the District. This condition was the result of turnover in key finance positions and internal controls not detecting all adjustments necessary to properly record year-end balances. As a result of this condition, the District's accounting records were initially misstated by amounts material to the financial statements.

Auditor Recommendation: We recommend that the District prepare, review, and reconcile all year-end schedules that are used in financial reporting prior to audit fieldwork.

Correction to be made: Business Manager will make sure that all journal entries are posted, the GL is reviewed, and year-end schedules are reconciled before the Audit Fieldwork.

Responsible person: Carrie Macko, Business Manager

Anticipated Completion Date: 8/31/2023

Finding # 2022-002 – Preparation of the Schedule of Expenditures of Federal Awards (SEFA)

Finding Summary: While management was able to provide us with a partially complete SEFA during our audit fieldwork, a material adjustment to the SEFA was ultimately required to properly present federal grants. This condition was the result of turnover in key finance personnel and internal controls did not detect all adjustments necessary to properly record federal revenue or prepare an appropriate SEFA. As a result of this condition, the District's schedule of expenditures of federal awards was initially misstated by a material amount.

Auditor Recommendation: We recommend that the District evaluate its processes to ensure that all federal programs, and the required information related to those programs, are appropriately included on the Schedule. In addition, grant tie outs should be completed and reviewed to verify that expenditures, revenues, and the related receivables and unearned revenues for grants are properly recorded.

Houghton Lake Community Schools

4433 West Houghton Lake Drive • Houghton Lake, Michigan 48629

Correction to be made: Business Manager will make sure that all Federal Revenues are accounted for by reviewing the GL to make sure that the revenues and expenditures tie out and the funds are appropriately recorded on the SEFA.

Responsible person: Carrie Macko, Business Manager

Anticipated Completion Date: 8/31/2023