

Houghton Lake  
Community  
Schools  
Houghton Lake,  
Michigan



Year Ended  
June 30, 2023

Financial  
Statements and  
Single Audit Act  
Compliance

**Rehmann**

# HOUGHTON LAKE COMMUNITY SCHOOLS

For the Year Ended June 30, 2023

## ADMINISTRATION

*Superintendent* Benjamin Williams

## BOARD OF EDUCATION

*President* Kelly Christian

*Vice President* Bryan Jeske

*Secretary* Paula Whittington

*Treasurer* Mark Souder

*Trustee* Chauncey Halliday

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*Trustee* Jennifer Oster

# HOUGHTON LAKE COMMUNITY SCHOOLS

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## INDEPENDENT AUDITORS' REPORT

October 2, 2023

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, each major fund, and the aggregate remaining fund information of **Houghton Lake Community Schools** (the "District"), as of and for the year ended June 30, 2023, 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, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2023, 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 fund financial statements and schedule 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 fund financial statements and schedule are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2023, 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 Lobson LLC". The signature is written in a cursive, flowing style.

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## **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 Schools' (hereon referred to as the "District") performance during the fiscal year ending June 30, 2023. 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	\$ (12,310,705)
• Change in total net position	6,098,228
• Fund balances, governmental funds	5,786,548
• Change in fund balances, governmental funds	1,866,612
• Change in fund balance, general fund	1,920,026
• Installment debt outstanding, excluding lease payable	2,458,341
• Change in installment debt, excluding lease payable	(461,090)
• Capital assets, net	7,920,285

### 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 supplementary information in addition to the basic financial statements.

### Government-wide Financial Statements

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

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

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

# HOUGHTON LAKE COMMUNITY SCHOOLS

## Management's Discussion and Analysis

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the District include instruction, supporting services, food service, and community service. The District has no business-type activities as of and for the year ending June 30, 2023.

### 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 and the 2017 refunding bonds debt service fund, which are the District's major funds. 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 MPERS 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 \$12,310,705 at the close of the most recent fiscal year.

	Net Position	
	2023	2022
<b>Assets</b>		
Current and other assets	\$ 8,799,461	\$ 5,652,841
Capital assets, net	7,920,285	7,048,026
	<u>16,719,746</u>	<u>12,700,867</u>
<b>Deferred outflows of resources</b>	<u>8,568,227</u>	<u>4,484,372</u>
<b>Liabilities</b>		
Current and other liabilities	3,040,587	1,750,856
Long-term liabilities	2,822,234	3,255,621
Net pension liability, due in more than one year	23,088,154	15,813,480
Net OPEB liability, due in more than one year	1,259,376	941,442
	<u>30,210,351</u>	<u>21,761,399</u>
<b>Deferred inflows of resources</b>	<u>7,388,327</u>	<u>13,832,773</u>
<b>Net position</b>		
Net investment in capital assets	5,342,703	4,067,895
Restricted	784,786	875,533
Unrestricted (deficit)	<u>(18,438,194)</u>	<u>(23,352,361)</u>
<b>Total net position</b>	<u>\$ (12,310,705)</u>	<u>\$ (18,408,933)</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 \$3,146,620 due to state aid funding and federal grants. The District's current and other liabilities increased \$1,289,731 due to capital projects and a one time flowthrough expense for MPSERS 147c(2).

The District's net pension and OPEB liabilities increased from prior year by \$7,274,674 and \$317,934, respectively, as well as the related deferred outflows by \$4,097,586. The deferred inflows related to net pension and OPEB decreased by \$6,444,446.

# HOUGHTON LAKE COMMUNITY SCHOOLS

## Management's Discussion and Analysis

Long-term liabilities, which include general obligation bonds, lease, 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 \$6,098,228 during the 2022-2023 school year, compared to an increase of \$4,863,294 during the 2021-2022 school year.

	Change in Net Position	
	2023	2022
<b>Program revenues</b>		
Charges for services	\$ 395,034	\$ 276,032
Operating grants and contributions	8,098,771	6,154,734
<b>General revenues</b>		
Property taxes	9,251,109	9,186,667
Unrestricted state aid	2,071,663	1,774,946
Other	125,999	5,074
<b>Total revenues</b>	<u>19,942,576</u>	<u>17,397,453</u>
<b>Expenses</b>		
Instruction	6,431,400	5,769,287
Supporting services	5,776,902	5,353,517
Food service	1,131,876	931,130
Community service	33,668	30,690
Interest on long-term debt	99,132	95,395
Unallocated depreciation	371,370	354,140
<b>Total expenses</b>	<u>13,844,348</u>	<u>12,534,159</u>
<b>Change in net position</b>	6,098,228	4,863,294
Net position		
Beginning of year	<u>(18,408,933)</u>	<u>(23,272,227)</u>
<b>End of year</b>	<u>\$ (12,310,705)</u>	<u>\$ (18,408,933)</u>

The differences seen above, between 2022-2023 and 2021-2022 revenues is mostly due to an increase in operating grants and contributions and unrestricted state aid of \$1,944,037 and \$296,717, respectively, from the prior year due to ESSER II and ESSER III grant funds along with an increase in state aid for the district's per pupil funding. The increase in expenses from the prior year is mainly due to the increases in instruction of \$662,113 and supporting services of \$423,385 due to MPSERS 147c(2) flowthrough expense and capital projects funded by ESSER grants. Food service expenses also increased \$200,746 due to equipment purchases and increased food costs.

# 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 \$5,786,548. 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, \$223,671 is nonspendable for inventory and prepaids, \$387,783 is restricted for debt service and \$330,395 is restricted for the food service program, and \$204,529 is committed for the forestry contract classroom project and student/school activity. The remaining fund balance of \$4,640,170 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 \$4,775,038, of which \$129,389 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 and total fund balance represent approximately 28 and 29 percent of general fund expenditures, respectively. The District had an unassigned fund balance of \$4,640,170 at year-end.

The fund balance of the District's general fund increased \$1,920,026 during the current fiscal year. This is primarily attributable to one-time federal grant funds received, in addition to cost saving measures taken during the year.

The fund balance of the District's 2017 refunding bonds debt service fund decreased \$30,307 during the current fiscal year. This is primarily attributable to the payment schedule of the principal and interest.

### 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 \$94,469 mainly due to state sources being over budget by \$139,033, offset by federal sources being under budget by \$82,711. This was a result of more safety and at risk funding being utilized than anticipated. Federal sources were down due to ESSER projects not being completed by June 30th as expected.

# HOUGHTON LAKE COMMUNITY SCHOOLS

## Management's Discussion and Analysis

Actual total expenditures were under the final amended budget by \$380,324. The significant fluctuations between actual and budgeted expenditures are as follows:

- Basic programs expenditures were under budget by \$106,615 due to salaries and benefits being less than anticipated. Also, substitute costs were lower than budgeted.
- Operation and maintenance expenditures were under budget by \$160,468 due to building maintenance along with supplies being less than anticipated.

The original and final budgets resulted in a positive change in fund balance of \$1,106,704 and \$1,368,501 respectively. The significant fluctuations between original and final budget are as follows:

- State revenues increased \$379,681 from original to final budget due to the 147c(2) MPSERS one time funding of approximately \$653,000 and the decrease of the 22b Discretionary payment in the amount of \$335,000.
- Federal revenues decreased \$2,211,111 from original to final budget due to the majority of the capital projects funded by ESSER III being completed after June 30th.
- Basic programs expenditures increased \$297,678 from original to final budget due to the 147c(2) MPSERS one time flowthrough funding expense.
- Added needs expenditures decreased \$300,344 from original to final budget due to staffing shortages which created open positions that could not be filled.
- School administration expenditures increased \$125,993 from original to final budget due to 147c(2) MPSERS one time flowthrough funding expense.

### Capital Assets

As of June 30, 2023, the District had \$7,920,285 in net capital assets including construction in progress, site improvements, buildings and improvements, machinery and equipment, transportation equipment and leased equipment.

	Capital Assets (net of depreciation/amortization)	
	2023	2022
Construction in progress	\$ 1,364,313	\$ -
Site improvements	1,496,595	1,496,595
Buildings and improvements	15,281,476	15,281,476
Machinery and equipment	3,882,432	3,734,524
Transportation equipment	1,758,943	1,758,943
Leased equipment	98,489	11,758
	<u>23,882,248</u>	<u>22,283,296</u>
Less accumulated depreciation/amortization	<u>(15,961,963)</u>	<u>(15,223,512)</u>
<b>Total capital assets, net</b>	<u><b>\$ 7,920,285</b></u>	<u><b>\$ 7,059,784</b></u>

The increase of \$860,501 from June 30, 2022 to June 30, 2023 is attributable to the current year additions of \$1,598,952, offset by depreciation/amortization expense of \$738,451. Additional information on the District's capital assets can be found in the notes to the financial statements.

# HOUGHTON LAKE COMMUNITY SCHOOLS

## Management's Discussion and Analysis

### Long-term Debt

The long-term obligations for the District decreased from \$3,267,379 at June 30, 2022 to \$2,822,234 at the end of June 30, 2023. The total decrease of \$445,145 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 2023-2024 fiscal year:

- Student enrollment was projected to be down 1.4%
- Staffing levels, step and education attainment
- 2023-24 contracts for staff
- Health insurance projected costs for 2023-24
- Retirement rate payment to ORS
- Per pupil funding for 2023-24 was projected to increase \$366

### 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, 2023

	<b>Governmental Activities</b>
<b>Assets</b>	
Cash and cash equivalents	\$ 2,118,876
Investments	2,324,059
Receivables	4,132,855
Inventories	147,351
Prepays	76,320
Capital assets not being depreciated/amortized, net	1,364,313
Capital assets being depreciated/amortized, net	<u>6,555,972</u>
<b>Total assets</b>	<u>16,719,746</u>
<b>Deferred outflows of resources</b>	
Deferred charge on bond refunding	54,926
Deferred pension amounts	6,872,522
Deferred OPEB amounts	<u>1,640,779</u>
<b>Total deferred outflows of resources</b>	<u>8,568,227</u>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	2,460,939
Unearned revenue	579,648
Bonds and other long-term liabilities:	
Due within one year	569,185
Due in more than one year	2,253,049
Net pension liability, due in more than one year	23,088,154
Net other postemployment benefits liability, due in more than one year	<u>1,259,376</u>
<b>Total liabilities</b>	<u>30,210,351</u>
<b>Deferred inflows of resources</b>	
Deferred pension amounts	3,635,733
Deferred OPEB amounts	<u>3,752,594</u>
<b>Total deferred inflows of resources</b>	<u>7,388,327</u>
<b>Net position</b>	
Net investment in capital assets	5,342,703
Restricted for:	
Food service	424,677
Debt service	360,109
Unrestricted (deficit)	<u>(18,438,194)</u>
<b>Total net position</b>	<u><u>\$ (12,310,705)</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, 2023

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Governmental activities:				
Instruction	\$ 6,431,400	\$ -	\$ 6,989,354	\$ 557,954
Supporting services	5,776,902	305,436	117,856	(5,353,610)
Food service	1,131,876	89,598	991,561	(50,717)
Community service	33,668	-	-	(33,668)
Interest on long-term debt	99,132	-	-	(99,132)
Unallocated depreciation	371,370	-	-	(371,370)
<b>Total</b>	<b>\$ 13,844,348</b>	<b>\$ 395,034</b>	<b>\$ 8,098,771</b>	<b>(5,350,543)</b>
General revenues:				
Property taxes				9,251,109
Unrestricted state aid				2,071,663
Unrestricted investment earnings				125,999
<b>Total general revenues</b>				<b>11,448,771</b>
<b>Change in net position</b>				<b>6,098,228</b>
Net position (deficit), beginning of year				(18,408,933)
<b>Net position (deficit), end of year</b>				<b>\$ (12,310,705)</b>

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, 2023

	General Fund	2017 Refunding Bonds Debt Service Fund	Nonmajor Governmental Funds	Totals
<b>Assets</b>				
Cash and cash equivalents	\$ 968,663	\$ 861,308	\$ 288,905	\$ 2,118,876
Investments	2,159,907	-	164,152	2,324,059
Accounts receivable	34,151	11	120	34,282
Due from other governments	3,947,164	-	151,409	4,098,573
Due from other funds	475,194	1,660	-	476,854
Inventories	125,069	-	22,282	147,351
Prepays	4,320	-	72,000	76,320
<b>Total assets</b>	<b>\$ 7,714,468</b>	<b>\$ 862,979</b>	<b>\$ 698,868</b>	<b>\$ 9,276,315</b>
<b>Liabilities</b>				
Accounts payable	\$ 1,017,994	\$ 2	\$ 75,141	\$ 1,093,137
Salaries and benefits payable	1,340,128	-	-	1,340,128
Due to other funds	1,660	475,194	-	476,854
Unearned revenue	579,648	-	-	579,648
<b>Total liabilities</b>	<b>2,939,430</b>	<b>475,196</b>	<b>75,141</b>	<b>3,489,767</b>
<b>Fund balances</b>				
Nonspendable	129,389	-	94,282	223,671
Restricted	-	387,783	330,395	718,178
Committed	5,479	-	199,050	204,529
Unassigned	4,640,170	-	-	4,640,170
<b>Total fund balances</b>	<b>4,775,038</b>	<b>387,783</b>	<b>623,727</b>	<b>5,786,548</b>
<b>Total liabilities and fund balances</b>	<b>\$ 7,714,468</b>	<b>\$ 862,979</b>	<b>\$ 698,868</b>	<b>\$ 9,276,315</b>

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, 2023

<b>Fund balances - total governmental funds</b>	<b>\$ 5,786,548</b>
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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/amortized, net	6,555,972
Capital assets not being depreciated/amortized, net	1,364,313

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	(23,088,154)
Net OPEB liability	(1,259,376)
Deferred inflows related to the net pension and OPEB liabilities	(7,388,327)
Deferred outflows related to the net pension and OPEB liabilities	8,513,301

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

Bonds and other long-term liabilities	(2,524,710)
Bond premiums	(107,798)
Deferred charge on refunding	54,926
Accrued interest on bonds payable and installment purchase agreement	(27,674)
Compensated absences	(189,726)

<b>Net position (deficit) of governmental activities</b>	<b><u>\$ (12,310,705)</u></b>
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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, 2023

	General Fund	2017 Refunding Bonds Debt Service Fund	Nonmajor Governmental Funds	Totals
<b>Revenues</b>				
Local sources:				
Taxes	\$ 8,762,215	\$ 488,894	\$ -	\$ 9,251,109
Charges for services	68,546	-	-	68,546
Food service	-	-	89,598	89,598
Interest	125,999	-	-	125,999
Other	117,856	-	236,890	354,746
State sources	5,208,042	-	37,559	5,245,601
Federal sources	3,852,975	-	954,002	4,806,977
<b>Total revenues</b>	<b>18,135,633</b>	<b>488,894</b>	<b>1,318,049</b>	<b>19,942,576</b>
<b>Expenditures</b>				
Current:				
Instruction	8,074,839	-	-	8,074,839
Supporting services	6,519,195	-	209,280	6,728,475
Food service activities	-	-	1,034,083	1,034,083
Community services	33,668	-	-	33,668
Debt service:				
Principal	63,210	430,000	-	493,210
Interest and fiscal charges	8,036	89,201	-	97,237
Capital outlay	1,603,390	-	97,793	1,701,183
<b>Total expenditures</b>	<b>16,302,338</b>	<b>519,201</b>	<b>1,341,156</b>	<b>18,162,695</b>
Revenues over (under) expenditures	1,833,295	(30,307)	(23,107)	1,779,881
<b>Other financing sources</b>				
Issuance of bonds and other long-term liabilities	86,731	-	-	86,731
<b>Net change in fund balances</b>	<b>1,920,026</b>	<b>(30,307)</b>	<b>(23,107)</b>	<b>1,866,612</b>
Fund balances, beginning of year	2,855,012	418,090	646,834	3,919,936
<b>Fund balances, end of year</b>	<b>\$ 4,775,038</b>	<b>\$ 387,783</b>	<b>\$ 623,727</b>	<b>\$ 5,786,548</b>

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, 2023

**Net change in fund balances - total governmental funds** \$ 1,866,612

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/amortization

Capital assets constructed/purchased	1,598,952
Depreciation/amortization	(738,451)

Repayment of debt principal is an expenditure in the funds, but the repayment reduces long-term liabilities in the statement of net position.

Issuance of bonds and other long-term liabilities	(86,731)
Principal payments on bonds and other long-term liabilities	493,210

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	(9,723)
Amortization of bond premium	21,559
Amortization of deferred charges on refunding	(13,731)
Change in net pension liabilities and related deferred amounts	1,617,772
Change in net OPEB liabilities and related deferred amounts	1,331,652
Change in the accrual for compensated absences	17,107

**Change in net position of governmental activities** \$ 6,098,228

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, 2023

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
<b>Revenues</b>				
Local sources:				
Taxes	\$ 8,790,507	\$ 8,760,219	\$ 8,762,215	\$ 1,996
Charges for services	39,000	58,426	68,546	10,120
Interest	3,000	110,000	125,999	15,999
Other	77,000	107,823	117,856	10,033
State sources	4,689,328	5,069,009	5,208,042	139,033
Federal sources	6,146,797	3,935,686	3,852,975	(82,711)
<b>Total revenues</b>	<b>19,745,632</b>	<b>18,041,164</b>	<b>18,135,633</b>	<b>94,469</b>
<b>Expenditures</b>				
Current:				
Instruction:				
Basic programs	6,038,535	6,336,213	6,229,598	(106,615)
Added needs	2,104,192	1,803,848	1,795,812	(8,036)
Adult education	57,116	50,068	49,429	(639)
	<u>8,199,843</u>	<u>8,190,130</u>	<u>8,074,839</u>	<u>(115,291)</u>
Supporting services:				
Pupil services	910,165	810,170	804,193	(5,977)
Instructional staff	779,846	808,940	769,186	(39,754)
General administration	342,541	350,069	336,633	(13,436)
School administration	1,066,843	1,192,836	1,165,180	(27,656)
Business office	296,665	387,051	372,822	(14,229)
Operation and maintenance	1,556,755	1,512,168	1,351,700	(160,468)
Pupil transportation	1,041,732	1,046,157	984,793	(61,364)
Central services	803,388	821,649	734,688	(86,961)
	<u>6,797,935</u>	<u>6,929,040</u>	<u>6,519,195</u>	<u>(409,845)</u>
Community services	6,008	42,089	33,668	(8,421)
Debt service:				
Principal	31,091	31,090	63,210	32,120
Interest and fiscal charges	3,456	3,456	8,036	4,580
	<u>34,547</u>	<u>34,546</u>	<u>71,246</u>	<u>36,700</u>
Capital outlay	3,620,595	1,486,857	1,603,390	116,533
<b>Total expenditures</b>	<b>18,658,928</b>	<b>16,682,662</b>	<b>16,302,338</b>	<b>(380,324)</b>
Revenues over expenditures	1,086,704	1,358,501	1,833,295	474,794
<b>Other financing sources</b>				
Transfers in	20,000	10,000	-	(10,000)
Issuance of bonds and other long-term liabilities	-	-	86,731	86,731
<b>Total other financing sources</b>	<b>20,000</b>	<b>10,000</b>	<b>86,731</b>	<b>76,731</b>
<b>Net change in fund balance</b>	<b>1,106,704</b>	<b>1,368,501</b>	<b>1,920,026</b>	<b>551,525</b>
Fund balance, beginning of year	2,855,012	2,855,012	2,855,012	-
<b>Fund balance, end of year</b>	<b>\$ 3,961,716</b>	<b>\$ 4,223,513</b>	<b>\$ 4,775,038</b>	<b>\$ 551,525</b>

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, 2023.

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. The major governmental funds are reported as 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. 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.

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 or within one year for expenditure-driven grants. 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.

# HOUGHTON LAKE COMMUNITY SCHOOLS

## Notes to Financial Statements

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

The District reports the following major governmental funds:

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

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

Additionally, the District reports the following fund types:

The *special revenue funds* are used to account for the proceeds of specific revenue sources that are restricted for food service and student activities.

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.

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.

# HOUGHTON LAKE COMMUNITY SCHOOLS

## Notes to Financial Statements

- e. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- f. Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

### ***Receivables and Payables***

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

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

### ***Inventories and Prepaids***

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

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

### ***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/amortized 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
Leased equipment	2-3

# HOUGHTON LAKE COMMUNITY SCHOOLS

## Notes to Financial Statements

### *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.

### *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

### *Leases*

*Lessee.* The District is a lessee for noncancellable leases of equipment. The District recognizes a lease liability and an intangible right-to-use lease asset (lease asset) in the government-wide financial statements. The District recognizes lease liabilities with an initial, individual value of \$5,000 or more.

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

Key estimates and judgments related to leases include how the District determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments. The District uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the District generally uses its estimated incremental borrowing rate as the discount rate for leases. The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price (if applicable) that the District is reasonably certain to exercise.

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

### *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 straight-line method. Bond issuance costs are reported as expense when incurred.

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

# HOUGHTON LAKE COMMUNITY SCHOOLS

## Notes to Financial Statements

### *Fund Equity*

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

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

### *Pensions and Other Postemployment Benefits*

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

### *Use of Estimates*

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

# HOUGHTON LAKE COMMUNITY SCHOOLS

## Notes to Financial Statements

### 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 28% of the District's general fund revenue during the 2023 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, 2023, the District incurred expenditures in excess of amounts appropriated, as follows:

	Total Appropriations	Amount of Expenditures	Budget Variance
<b>General Fund</b>			
Debt service:			
Principal	\$ 31,090	\$ 63,210	\$ 32,120
Interest and fiscal charges	3,456	8,036	4,580
Capital outlay	1,486,857	1,603,390	116,533

### 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, 2023:

<b>Statement of Net Position</b>	
Cash and cash equivalents	\$ 2,118,876
Investments	<u>2,324,059</u>
<b>Total</b>	<b><u>\$ 4,442,935</u></b>
Deposits	\$ 2,118,558
Investments	2,324,059
Cash on hand	<u>318</u>
<b>Total</b>	<b><u>\$ 4,442,935</u></b>

# HOUGHTON LAKE COMMUNITY SCHOOLS

## Notes to Financial Statements

As of June 30, 2023, the District had the following investments:

Investment Type	Amortized Cost	Maturity	Rating
MILAF External Investment pool - MIMAX	<u>\$ 2,324,059</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, 2023, the amortized cost 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, \$1,918,078 of the District’s bank balance of \$2,272,567 was exposed to credit risk because it was uninsured and uncollateralized.

*Custodial credit risk - investments.* For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All repurchase securities are held by the investment’s counterparty (Chemical Bank), not in the name of the District. The District will minimize custodial credit risk by limiting investments to the types of securities allowed by law and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business. The District’s investments are not exposed to custodial credit risk since the securities are held by a counterparty in the name of the District.

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

# HOUGHTON LAKE COMMUNITY SCHOOLS

## Notes to Financial Statements

*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	2017 Refunding Bonds Debt Service Fund	Nonmajor Governmental Funds	Total
Accounts receivable	\$ 34,151	\$ 11	\$ 120	\$ 34,282
Due from other governments	3,947,164	-	151,409	4,098,573
	<u>\$ 3,981,315</u>	<u>\$ 11</u>	<u>\$ 151,529</u>	<u>\$ 4,132,855</u>

### 6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2023, was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
<b>Governmental activities</b>					
Capital assets not being depreciated/amortized:					
Construction in progress	\$ -	\$ 1,364,313	\$ -	\$ -	\$ 1,364,313
Capital assets being depreciated/amortized:					
Site improvements	1,496,595	-	-	-	1,496,595
Buildings and improvements	15,281,476	-	-	-	15,281,476
Machinery and equipment	3,734,524	147,908	-	-	3,882,432
Transportation equipment	1,758,943	-	-	-	1,758,943
Leased equipment (Note 9)	11,758	86,731	-	-	98,489
	<u>22,283,296</u>	<u>234,639</u>	<u>-</u>	<u>-</u>	<u>22,517,935</u>

# HOUGHTON LAKE COMMUNITY SCHOOLS

## Notes to Financial Statements

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Less accumulated depreciation/amortization for:					
Site improvements	\$ (851,377)	\$ (69,431)	\$ -	\$ -	\$ (920,808)
Buildings and improvements	(10,934,156)	(166,305)	-	-	(11,100,461)
Machinery and equipment	(2,312,089)	(325,115)	-	-	(2,637,204)
Transportation equipment	(1,125,890)	(141,721)	-	-	(1,267,611)
Leased equipment (Note 9)	-	(35,879)	-	-	(35,879)
	<u>(15,223,512)</u>	<u>(738,451)</u>	<u>-</u>	<u>-</u>	<u>(15,961,963)</u>
Capital assets being depreciated/amortized, net	<u>7,059,784</u>	<u>(503,812)</u>	<u>-</u>	<u>-</u>	<u>6,555,972</u>
<b>Governmental activities capital assets, net</b>	<u>\$ 7,059,784</u>	<u>\$ 860,501</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,920,285</u>

Depreciation/amortization expense was charged to functions / programs as follows:

**Governmental activities:**

Instruction	\$ 304,200
Supporting services	62,881
Unallocated	<u>371,370</u>
	<u>\$ 738,451</u>

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

The District had outstanding commitments related to construction projects at year-end in the approximate amount of \$1,470,000.

# HOUGHTON LAKE COMMUNITY SCHOOLS

## Notes to Financial Statements

### 7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2023 are as follows:

	General Fund	2017 Refunding Bonds Debt Service Fund	Nonmajor Governmental Funds	Total
<b>Fund financial statements</b>				
Accounts payable	\$ 1,017,994	\$ 2	\$ 75,141	\$ 1,093,137
Salaries and benefits payable	1,340,128	-	-	1,340,128
	<u>\$ 2,358,122</u>	<u>\$ 2</u>	<u>\$ 75,141</u>	2,433,265
<b>Government-wide financial statements</b>				
Accrued interest on bonds payable and installment purchase agreement				<u>27,674</u>
<b>Total accounts payable and accrued liabilities</b>				<u>\$ 2,460,939</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.

At June 30, 2023, interfund receivables and payables in the fund financial statements consisted of the following:

	Due from Other Funds	Due to Other Funds
General fund	\$ 475,194	\$ 1,660
2017 refunding bonds debt service fund	1,660	475,194
	<u>\$ 476,854</u>	<u>\$ 476,854</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, 2023, the District had no interfund transfers.

# HOUGHTON LAKE COMMUNITY SCHOOLS

## Notes to Financial Statements

### 9. LEASES

Lessee - The District is involved in three agreements as a lessee that qualify as long-term lease agreements. Below is a summary of the nature of these agreements. These agreements qualify as intangible, right-to-use assets and not financed purchases, as the District will not own the asset at the end of the contract term and the noncancelable term of the agreement surpasses one year.

The right-to-use assets and the related activity are included in Note 6, Capital Assets. The lease liability and related activity are presented in Note 10, Bonds and Other Long-term Liabilities.

Asset Type	Remaining Term of Agreements
Equipment	2 to 4 years

The assets acquired through leases are summarized as follows:

Equipment	\$ 98,489
Less accumulated amortization	<u>(35,879)</u>
<b>Net book value</b>	<u><u>\$ 62,610</u></u>

The net present value of future minimum payments as of year end were as follows:

Year Ended June 30,	Principal	Interest
2024	\$ 32,988	\$ 1,540
2025	31,250	537
2026	1,590	42
2027	<u>541</u>	<u>3</u>
Total	<u><u>\$ 66,369</u></u>	<u><u>\$ 2,122</u></u>

# HOUGHTON LAKE COMMUNITY SCHOOLS

## Notes to Financial Statements

### 10. BONDS AND OTHER LONG-TERM LIABILITIES

The following is a summary of the bonds and other long-term liabilities activity of the District for the year ended June 30, 2023:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General obligation bonds	\$ 2,790,000	\$ -	\$ (430,000)	\$ 2,360,000	\$ 445,000
Direct placement:					
Installment purchase agreement	129,431	-	(31,090)	98,341	31,920
Subtotal	2,919,431	-	(461,090)	2,458,341	476,920
Lease payable (Note 9)	11,758	86,731	(32,120)	66,369	32,988
Bond premium	129,357	-	(21,559)	107,798	21,559
Compensated absences	206,833	-	(17,107)	189,726	37,718
	<u>\$ 3,267,379</u>	<u>\$ 86,731</u>	<u>\$ (531,876)</u>	<u>\$ 2,822,234</u>	<u>\$ 569,185</u>

Compensated absences are generally liquidated by the general fund.

Bonds and installment purchase agreement payable at June 30, 2023, 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%.

\$ 2,360,000

\$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%.

98,341

Total

\$ 2,458,341

# HOUGHTON LAKE COMMUNITY SCHOOLS

## Notes to Financial Statements

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

Year Ended June 30,	Other Obligations		Direct Placement Obligations	
	Principal	Interest	Principal	Interest
2024	\$ 445,000	\$ 75,800	\$ 31,920	\$ 2,626
2025	460,000	62,450	32,773	1,773
2026	470,000	48,650	33,648	898
2027	485,000	34,550	-	-
2028	500,000	20,000	-	-
	<u>\$ 2,360,000</u>	<u>\$ 241,450</u>	<u>\$ 98,341</u>	<u>\$ 5,297</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, 2023, \$2,545,000 of bonds outstanding are considered defeased.

### 11. 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.

### 12. 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

### 13. 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.

### 14. 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](http://www.michigan.gov/orsschools).

#### *Pension Benefits Provided*

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

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

# HOUGHTON LAKE COMMUNITY SCHOOLS

## Notes to Financial Statements

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

### ***Other Postemployment Benefits Provided***

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

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

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.

# HOUGHTON LAKE COMMUNITY SCHOOLS

## Notes to Financial Statements

### *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, 2021 valuation will be amortized over an 17-year period beginning October 1, 2021 and ending September 30, 2038.

The table below summarizes pension contribution rates in effect for fiscal year 2023:

Benefit Structure	Member Rates	Employer Rates
Basic	0.00% - 4.00%	20.14% - 20.16%
Member Investment Plan (MIP)	3.00% - 7.00%	20.14% - 20.16%
Pension Plus	3.00% - 6.40%	17.22% - 17.24%
Pension Plus 2	6.20%	19.93% - 19.95%
Defined Contribution	0.00%	13.73% - 13.75%

For the year ended June 30, 2023, required and actual contributions from the District to the pension plan were \$2,135,638, which included \$1,033,932, the amount received from the State and remitted to the System to fund the MPSERS unfunded actuarial accrued liability ("UAAL") stabilization rate. In addition, the District had additional contributions of \$602,150, which was a one time, state payment toward the MPSERS unfunded liability.

# HOUGHTON LAKE COMMUNITY SCHOOLS

## Notes to Financial Statements

The table below summarizes OPEB contribution rates in effect for fiscal year 2023:

Benefit Structure	Member Rates	Employer Rates
Premium Subsidy	3.00%	8.07% - 8.09%
Personal Healthcare Fund (PHF)	0.00%	7.21% - 7.23%

For the year ended June 30, 2023, required and actual contributions from the District to the OPEB plan were \$457,929.

The table below summarizes defined contribution rates in effect for fiscal year 2023:

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, 2023, required and actual contributions from the District for those members with a defined contribution benefit were \$70,171.

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

At June 30, 2023, the District reported a liability of \$23,088,154 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2021. 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, 2022, the District's proportion was 0.06139%, which was a decrease of 0.00540% from its proportion measured as of September 30, 2021.

## HOUGHTON LAKE COMMUNITY SCHOOLS

### Notes to Financial Statements

For the year ended June 30, 2023, the District recognized pension expense of \$1,121,088. At June 30, 2023, 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	\$ 230,962	\$ 51,623	\$ 179,339
Changes in assumptions	3,967,372	-	3,967,372
Net difference between projected and actual earnings on pension plan investments	54,142	-	54,142
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,664	3,584,110	(3,582,446)
	<u>4,254,140</u>	<u>3,635,733</u>	<u>618,407</u>
District contributions subsequent to the measurement date	<u>2,618,382</u>	-	<u>2,618,382</u>
<b>Total</b>	<u><u>\$ 6,872,522</u></u>	<u><u>\$ 3,635,733</u></u>	<u><u>\$ 3,236,789</u></u>

The amount reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2024. 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
2024	\$ (356,418)
2025	(332,875)
2026	124,363
2027	<u>1,183,337</u>
<b>Total</b>	<u><u>\$ 618,407</u></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, 2023, the District reported a liability of \$1,259,376 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2022, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2021. 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, 2022, the District's proportion was 0.05946% which was a decrease of 0.00222% from its proportion measured as of September 30, 2021.

For the year ended June 30, 2023, the District recognized OPEB expense (benefit) of \$(878,165). At June 30, 2023, 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	\$ -	\$ 2,466,635	\$ (2,466,635)
Changes in assumptions	1,122,522	91,402	1,031,120
Net difference between projected and actual earnings on OPEB plan investments	98,430	-	98,430
Changes in proportion and differences between employer contributions and proportionate share of contributions	7,348	1,194,557	(1,187,209)
	<u>1,228,300</u>	<u>3,752,594</u>	<u>(2,524,294)</u>
District contributions subsequent to the measurement date	412,479	-	412,479
<b>Total</b>	<u>\$ 1,640,779</u>	<u>\$ 3,752,594</u>	<u>\$ (2,111,815)</u>

# HOUGHTON LAKE COMMUNITY SCHOOLS

## Notes to Financial Statements

The amount reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2024. 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
2024	\$ (850,779)
2025	(757,980)
2026	(660,726)
2027	(188,080)
2028	(62,164)
Thereafter	<u>(4,565)</u>
<b>Total</b>	<b><u>\$ (2,524,294)</u></b>

### 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, 2021 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)	6.00%
Pension Plus plan (hybrid)	6.00%
Pension Plus 2 plan (hybrid)	6.00%
OPEB plans	6.00%
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	Pre-65: 7.75% Year 1 graded to 3.5% Year 15; 3.0% Year 120 Post-65: 5.25% Year 1 graded to 3.5% Year 15; 3.0% Year 120
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.

# HOUGHTON LAKE COMMUNITY SCHOOLS

## Notes to Financial Statements

### 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, 2018 valuation. The total pension and OPEB liabilities as of September 30, 2022, are based on the results of an actuarial valuation date of September 30, 2021, and rolled forward using generally accepted actuarial procedures, including the experience study. The recognition period for pension liabilities is 4.3922 years which is the average of the expected remaining service lives of all employees. The recognition period for OPEB liabilities is 6.2250 years which is the average of the expected remaining service lives of all employees. The recognition period for assets is 5 years.

*Changes in assumptions.* The payroll growth assumption for amortization purposes used in determining the fiscal year 2024 employer contributions decreased from 2.5% to 2.0%. Additionally, the discount rate used in the September 30, 2021 actuarial valuation decreased to 6.00% for the MIP and Basic plans, 6.00% for the Pension Plus Plan, and 6.00% for OPEB.

# 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, 2022, 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%	4.77%	1.19%
Private equity pools	16.00%	8.13%	1.30%
International equity pools	15.00%	6.26%	0.94%
Fixed income pools	13.00%	-0.19%	-0.02%
Real estate and infrastructure pools	10.00%	4.95%	0.50%
Absolute return pools	9.00%	2.52%	0.23%
Real return/opportunistic pools	10.00%	5.42%	0.54%
Short-term investment pools	2.00%	-0.47%	-0.01%
	<u>100.00%</u>		4.67%
Inflation			2.20%
Risk adjustment			<u>-0.87%</u>
<b>Investment rate of return</b>			<u><u>6.00%</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, 2022, 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%	4.77%	1.19%
Private equity pools	16.00%	8.13%	1.30%
International equity pools	15.00%	6.26%	0.94%
Fixed income pools	13.00%	-0.19%	-0.02%
Real estate and infrastructure pools	10.00%	4.95%	0.50%
Absolute return pools	9.00%	2.52%	0.23%
Real return/opportunistic pools	10.00%	5.42%	0.54%
Short-term investment pools	2.00%	-0.47%	-0.01%
	<u>100.00%</u>		4.67%
Inflation			2.20%
Risk adjustment			<u>-0.87%</u>
<b>Investment rate of return</b>			<u><u>6.00%</u></u>

### *Rate of Return*

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

# HOUGHTON LAKE COMMUNITY SCHOOLS

## Notes to Financial Statements

### *Discount Rate*

A discount rate of 6.00% was used to measure the total pension and OPEB liabilities. This discount rate was based on the long-term expected rate of return on pension and OPEB plan investments of 6.00%. The projection of cash flows used to determine these discount rates assumed that plan member contributions will be made at the current contribution 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 the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*

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

	1% Decrease (5.00%)	Current Discount Rate (6.00%)	1% Increase (7.00%)
District's proportionate share of the net pension liability	\$ 30,467,787	\$ 23,088,154	\$ 17,007,005

### *Sensitivity of the 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 6.00%, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher:

	1% Decrease (5.00%)	Current Discount Rate (6.00%)	1% Increase (7.00%)
District's proportionate share of the net OPEB liability	\$ 2,112,482	\$ 1,259,376	\$ 540,955

### *Sensitivity of the 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	Current Healthcare Cost Trend Rate	1% Increase
District's proportionate share of the net OPEB liability	\$ 527,366	\$ 1,259,376	\$ 2,081,071

# HOUGHTON LAKE COMMUNITY SCHOOLS

## Notes to Financial Statements

### *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](http://www.michigan.gov/orsschools).

### *Payable to the Pension Plan*

At June 30, 2023, the District reported a payable of \$416,540 for the outstanding amount of pension contributions to the Plan required for the year ended June 30, 2023.

### *Payable to the OPEB Plan*

At June 30, 2023, the District reported a payable of \$49,215 for the outstanding amount of OPEB contributions to the Plan required for the year ended June 30, 2023.

## 15. 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	2017 Refunding Bonds Debt Service Fund	Nonmajor Governmental Funds	Total
Nonspendable:				
Inventories	\$ 125,069	\$ -	\$ 22,282	\$ 147,351
Prepays	4,320	-	72,000	76,320
Total nonspendable	<u>129,389</u>	<u>-</u>	<u>94,282</u>	<u>223,671</u>
Restricted for:				
Debt service	-	387,783	-	387,783
Food service	-	-	330,395	330,395
Total restricted	<u>-</u>	<u>387,783</u>	<u>330,395</u>	<u>718,178</u>
Committed for:				
Students/school activity	-	-	199,050	199,050
Forestry contract classroom project	5,479	-	-	5,479
Total committed	<u>5,479</u>	<u>-</u>	<u>199,050</u>	<u>204,529</u>
Unassigned	<u>4,640,170</u>	<u>-</u>	<u>-</u>	<u>4,640,170</u>
Total fund balances - governmental funds	<u>\$ 4,775,038</u>	<u>\$ 387,783</u>	<u>\$ 623,727</u>	<u>\$ 5,786,548</u>

# HOUGHTON LAKE COMMUNITY SCHOOLS

## Notes to Financial Statements

### 16. NET INVESTMENT IN CAPITAL ASSETS

The composition of the District's net investment in capital assets as of June 30, 2023, was as follows:

	<b>Governmental Activities</b>
Capital assets:	
Being depreciated/amortized, net	\$ 6,555,972
Not being depreciated/amortized, net	<u>1,364,313</u>
Total capital assets	<u>7,920,285</u>
Related debt:	
Bonds and other long-term liabilities	2,524,710
Bond premium	107,798
Deferred charge	<u>(54,926)</u>
Total related debt	<u>2,577,582</u>
Net investment in capital assets	<u>\$ 5,342,703</u>

### 17. CORONAVIRUS (COVID-19)

In March 2020, the World Health Organization declared the novel coronavirus outbreak (COVID-19) to be a global pandemic. While the pandemic has resulted in an increase in the demands on the District to deliver education to students in a safe environment, the Federal Government has also provided significant resources to help mitigate the impacts of COVID-19. The District received \$2,385,846 during 2023 to be used to respond to the impacts of the COVID-19 pandemic through the Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act and the Coronavirus State and Local Fiscal Recovery Funds (SLFRF) program authorized by the American Rescue Plan 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.



## **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,			
	2023	2022	2021	2020
District's proportionate share of the net pension liability	\$ 23,088,154	\$ 15,813,480	\$ 26,173,379	\$ 27,729,985
District's proportion of the net pension liability	0.06139%	0.06679%	0.07619%	0.08373%
District's covered payroll	\$ 5,844,508	\$ 5,633,951	\$ 6,485,334	\$ 7,161,989
District's proportionate share of the net pension liability as a percentage of its covered payroll	395.04%	280.68%	403.58%	387.18%
Plan fiduciary net position as a percentage of the total pension liability	60.77%	72.60%	59.72%	60.31%

See notes to required supplementary information.



Year Ended June 30,				
2019	2018	2017	2016	2015
\$ 26,216,455	\$ 22,759,611	\$ 21,407,815	\$ 19,979,985	\$ 17,832,362
0.08721%	0.08783%	0.08581%	0.08180%	0.08096%
\$ 7,392,020	\$ 7,283,577	\$ 7,406,904	\$ 6,822,821	\$ 6,840,439
354.66%	312.48%	289.03%	292.84%	260.69%
62.36%	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,			
	2023	2022	2021	2020
Statutorily required contribution	\$ 2,135,638	\$ 2,090,463	\$ 1,961,236	\$ 2,095,461
Contributions in relation to the statutorily required contribution	<u>(2,135,638)</u>	<u>(2,090,463)</u>	<u>(1,961,236)</u>	<u>(2,095,461)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 5,959,195	\$ 5,892,303	\$ 5,655,548	\$ 6,713,785
Contributions as a percentage of covered payroll	35.84%	35.48%	34.68%	31.21%

See notes to required supplementary information.



Year Ended June 30,				
2019	2018	2017	2016	2015
\$ 2,144,733	\$ 2,102,459	\$ 1,973,644	\$ 1,809,685	\$ 1,492,289
<u>(2,144,733)</u>	<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>	<u>\$ -</u>
\$ 7,270,107	\$ 7,372,709	\$ 7,240,173	\$ 7,143,586	\$ 6,688,782
29.50%	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,		
	2023	2022	2021
District's proportionate share of the net OPEB liability	\$ 1,259,376	\$ 941,442	\$ 3,890,118
District's proportion of the net OPEB liability	0.05946%	0.06168%	0.07261%
District's covered payroll	\$ 5,844,508	\$ 5,633,951	\$ 6,485,334
District's proportionate share of the net OPEB liability as a percentage of its covered payroll	21.55%	16.71%	59.98%
Plan fiduciary net position as a percentage of the total OPEB liability	83.09%	87.33%	59.44%

See notes to required supplementary information.



Year Ended June 30,		
2020	2019	2018
\$ 5,854,740	\$ 6,882,097	\$ 7,786,824
0.08157%	0.08658%	0.08793%
\$ 7,161,989	\$ 7,392,020	\$ 7,283,577
81.75%	93.10%	106.91%
48.46%	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,		
	2023	2022	2021
Statutorily required contribution	\$ 457,929	\$ 464,953	\$ 446,821
Contributions in relation to the statutorily required contribution	(457,929)	(464,953)	(446,821)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
District's covered payroll	\$ 5,959,195	\$ 5,892,303	\$ 5,655,548
Contributions as a percentage of covered payroll	7.68%	7.89%	7.90%

See notes to required supplementary information.



Year Ended June 30,		
2020	2019	2018
\$ 533,462	\$ 542,754	\$ 554,930
<u>533,462</u>	<u>(542,754)</u>	<u>(554,930)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 6,713,785	\$ 7,270,107	\$ 7,372,709
7.95%	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:

- 2023 - The payroll growth assumption for amortization purposes used in determining the fiscal year 2024 employer contributions decreased from 2.5% to 2.0%. Additionally, the discount rate used in the September 30, 2021 actuarial valuation decreased to 6.00% for the MIP and Basic plans, and 6.00% for the Pension Plus Plan.
- 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:

- 2023 - The payroll growth assumption for amortization purposes used in determining the fiscal year 2024 employer contributions decreased from 2.5% to 2.0%. Additionally, the discount rate used in the September 30, 2021 actuarial valuation decreased to 6.00%.
- 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%.

## **SUPPLEMENTARY INFORMATION**

**COMBINING FUND  
FINANCIAL STATEMENTS**

# HOUGHTON LAKE COMMUNITY SCHOOLS

## Combining Balance Sheet

Nonmajor Governmental Funds

June 30, 2023

	Special Revenue		Totals
	Food Service	Student/School Activity	
<b>Assets</b>			
Cash and cash equivalents	\$ 65,355	\$ 223,550	\$ 288,905
Investments	164,152	-	164,152
Accounts receivable	120	-	120
Due from other governments	151,409	-	151,409
Inventories	22,282	-	22,282
Prepays	72,000	-	72,000
<b>Total assets</b>	<u>\$ 475,318</u>	<u>\$ 223,550</u>	<u>\$ 698,868</u>
<b>Liabilities</b>			
Accounts payable	\$ 50,641	\$ 24,500	\$ 75,141
<b>Fund balances</b>			
Nonspendable	94,282	-	94,282
Restricted	330,395	-	330,395
Committed	-	199,050	199,050
<b>Total fund balances</b>	<u>424,677</u>	<u>199,050</u>	<u>623,727</u>
<b>Total liabilities and fund balances</b>	<u>\$ 475,318</u>	<u>\$ 223,550</u>	<u>\$ 698,868</u>

# HOUGHTON LAKE COMMUNITY SCHOOLS

## Combining Statement of Revenues, Expenditures

and Changes in Fund Balances - Nonmajor Governmental Funds

For the Year Ended June 30, 2023

	Special Revenue		Totals
	Food Service	Student/School Activity	
<b>Revenues</b>			
Local sources:			
Food service	\$ 89,598	-	\$ 89,598
Other	-	236,890	236,890
State sources	37,559	-	37,559
Federal sources	954,002	-	954,002
<b>Total revenues</b>	<u>1,081,159</u>	<u>236,890</u>	<u>1,318,049</u>
<b>Expenditures</b>			
Current:			
Food service activities	1,034,083	-	1,034,083
Supporting services	-	209,280	209,280
Capital outlay	97,793	-	97,793
<b>Total expenditures</b>	<u>1,131,876</u>	<u>209,280</u>	<u>1,341,156</u>
<b>Net change in fund balances</b>	(50,717)	27,610	(23,107)
Fund balances, beginning of year	<u>475,394</u>	<u>171,440</u>	<u>646,834</u>
<b>Fund balances, end of year</b>	<u>\$ 424,677</u>	<u>\$ 199,050</u>	<u>\$ 623,727</u>

# HOUGHTON LAKE COMMUNITY SCHOOLS

## Schedule of Outstanding Bonded Indebtedness

2017 Refunding Bonds

June 30, 2023

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%	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>\$ 120,725</u>	<u>\$ 120,725</u>	<u>\$ 2,360,000</u>	<u>\$ 2,601,450</u>

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## **SINGLE AUDIT ACT COMPLIANCE**

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## INDEPENDENT AUDITORS' REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

October 2, 2023

Board of Education  
Houghton Lake Community Schools  
Houghton Lake, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **Houghton Lake Community Schools** (the "District") as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated October 2, 2023, 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 expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*Rehmann Johnson LLC*



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**HOUGHTON LAKE COMMUNITY SCHOOLS**

**Schedule of Expenditures of Federal Awards**  
For the Year Ended June 30, 2023

Federal Agency / Cluster / Program Title	Assistance Listing Number	Passed Through	Pass-through / Grantor Number	Approved Grant Award Amount	Expenditures (Memo Only) Prior Year(s)
<b>U.S. Department of Agriculture</b>					
Local Food for Schools Cooperative Agreement Program:					
Local Food for Schools	10.185	MDE	230985	\$ 5,547	\$ -
Child Nutrition Cluster:					
Summer Feeding School Program:					
SSO - Breakfast 22	10.553	MDE	211971	233,265	-
SSO - Breakfast 22	10.553	MDE	221970	14,800	-
SSO - Breakfast 23	10.553	MDE	231970	304,004	-
National School Lunch Program:					
SSO - Lunch 21	10.555	MDE	221960	3,338	-
SSO - Lunch 22	10.555	MDE	221961	471,219	-
SSO - Lunch 23	10.555	MDE	231960	541,076	-
SSO - Afterschool Snacks 22	10.555	MDE	221980	14,541	-
SSO - Afterschool Snacks 23	10.555	MDE	231980	22,577	-
SSO - Supply Chain Assistance	10.555	MDE	230910	25,999	-
Non-cash assistance (commodities):					
National School Lunch - Entitlement	10.555	MDE	n/a	52,290	-
Bonus Commodities	10.555	MDE	n/a	2,509	-
Total Child Nutrition Cluster					
COVID-19 - Pandemic EBT Local Level Costs	10.649	MDE	220980	3,135	-
Bankhead-Jones Farm Tenant Act - Federal Forest Payment	10.666	Missaukee	n/a	8,414	-
<b>Total U.S. Department of Agriculture</b>					
<b>U.S. Department of Education</b>					
Title I, Part A - Regular	84.010	MDE	221530-2122	980,583	849,931
Title I, Part A - Regular	84.010	MDE	221530-2223	810,353	-
Special Education Cluster (IDEA):					
IDEA Special Education Grants 21-22	84.027	COORISD	220450	424,992	-
IDEA Special Education Grants 22-23	84.027	COORISD	230450	470,049	-
Title V, Part B - Regular	84.358B	MDE	220660-2122	27,458	12,580
Title V, Part B - Regular	84.358B	MDE	220660-2223	46,211	-
Title II, Part A - Regular	84.367	MDE	220520-2122	161,638	89,702
Title II, Part A - Regular	84.367	MDE	220520-2223	151,824	-
Title IV, Part A - Regular	84.424	MDE	220750-2122	58,147	56,594
Title IV, Part A - Regular	84.424	MDE	220750-2223	56,776	-
Education Stabilization Fund:					
COVID-19 - ESSER II	84.425D	MDE	213712-2021	2,626,155	808,707
COVID-19 - ESSER Credit Recovery	84.425D	MDE	213742-2122	41,250	32,492
COVID-19 - ESSER III Formula Funds - American Rescue Plan	84.425U	MDE	213713-2122	5,902,167	288,738
<b>Total U.S. Department of Education</b>					
<b>Total Federal Financial Assistance</b>					

See notes to schedule of expenditures of federal awards.

Accrued Revenue at June 30, 2022	Current Year Cash Received	Expenditures Year Ended June 30, 2023	Adjustments	Accrued Revenue at June 30, 2023
\$ -	\$ 5,547	\$ 5,547	\$ -	\$ -
12,215	12,215	-	-	-
2,585	2,585	-	-	-
-	249,359	304,004	-	54,645
14,800	264,159	304,004	-	54,645
3,338	3,338	-	-	-
22,183	22,183	-	-	-
-	453,366	541,076	-	87,710
705	705	-	-	-
-	19,457	22,577	-	3,120
-	25,999	25,999	-	-
-	52,290	52,290	-	-
-	2,509	2,509	-	-
26,226	579,847	644,451	-	90,830
41,026	844,006	948,455	-	145,475
-	3,135	3,135	-	-
-	8,414	8,414	-	-
41,026	861,102	965,551	-	145,475
343,046	343,046	-	-	-
-	591,403	790,230	-	198,827
343,046	934,449	790,230	-	198,827
152,459	152,459	-	-	-
-	295,787	457,004	-	161,217
152,459	448,246	457,004	-	161,217
7,250	7,250	-	-	-
-	20,737	46,069	-	25,332
7,250	27,987	46,069	-	25,332
13,557	18,059	4,502	-	-
-	-	104,235	-	104,235
13,557	18,059	108,737	-	104,235
19,077	19,077	-	-	-
-	37,859	50,510	-	12,651
19,077	56,936	50,510	-	12,651
482,146	482,146	1,016,221	-	1,016,221
2,543	8,708	6,165	-	-
484,689	490,854	1,022,386	-	1,016,221
85,204	85,204	1,366,490	-	1,366,490
1,105,282	2,061,735	3,841,426	-	2,884,973
\$ 1,146,308	\$ 2,922,837	\$ 4,806,977	\$ -	\$ 3,030,448

# 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, 2023. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, 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
IOSCO RESA	Iosco Regional Educational Service Agency
MDE	Michigan Department of Education
Missaukee	Missaukee County

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

October 2,2023

Board of Education  
Houghton Lake Community School  
Houghton Lake, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the remaining fund information of **Houghton Lake Community Schools** (the "District"), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 2,2023.

### **Report on Internal Control Over Financial Reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as item 2023-001 that we consider to be a significant deficiency.



## **Report on 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 Schools' Response to Finding**

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

## **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 "Rehmann Loborn LLC". The signature is written in a cursive, flowing style.

## INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

October 2, 2023

Board of Education  
Houghton Lake Community School  
Houghton Lake, Michigan

### Report on Compliance for the Major Federal Program

#### ***Opinion on the 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 the District's major federal program for the year ended June 30, 2023. The District's major federal program is 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 its major federal program for the year ended June 30, 2023.

#### ***Basis for Opinion on the 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 the 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 program.

### ***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 the 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.

*Rehmann Loban LLC*

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# HOUGHTON LAKE COMMUNITY SCHOOLS

## Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2023

### SECTION I - SUMMARY OF AUDITORS' RESULTS

#### Financial Statements

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

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

           yes        X   no

Significant deficiency(ies) identified?

  X   yes                 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:

#### Assistance Listing Number

#### Name of Federal Program or Cluster

#### Type of Report

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?

           yes        X   no

# HOUGHTON LAKE COMMUNITY SCHOOLS

## Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2023

### SECTION II – FINANCIAL STATEMENT FINDINGS

#### 2023-001 – Lack of Independent Review and Approval of Reporting

**Finding Type.** Significant Deficiency in Internal Control over Financial Reporting.

**Criteria.** Management is responsible for ensuring segregation of duties by having an independent review and approval process in place.

**Condition.** During our review of cash, we noted there was no documentation of preparation and review on the bank reconciliations by two separate individuals and therefore we were unable to determine if the bank reconciliations were completed and reviewed in a timely manner after month-end and if appropriate segregation of duties are in place. Upon further inquiry of management, we noted that there is currently no review taking place of the bank reconciliations by an individual separate from the preparer of the bank reconciliations. We further noted that for one out of the four cash receipt walkthrough selections made, the deposit slip did not have documentation of who completed the deposit slip and who took the deposit to the bank to support proper segregation of duties. Additionally, during our review of journal entry testing, we noted that five out of the ten manual journal entries selected did not have documentation of preparation as evidenced by initials of the preparer and date completed. None of the ten journal entries selected had documentation of an independent reviewer. Upon further inquiry of management, there is currently no independent review of manual journal entries taking place. Lastly, during our cash disbursement walkthrough, one of the two cash disbursement selections was not reviewed or approved by the Board prior to the check run being made.

**Cause.** This condition is a result of the District's turnover in staffing and the small size of its accounting staff.

**Effect.** As a result of this condition, the District is exposed to an increased risk that misstatements or misappropriations might occur and not be detected by management in a timely manner.

**Recommendation.** While there are no easy answers to the challenge of balancing the costs and benefits of internal control and segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation and approval of accounting functions by qualified members of management as possible.

**View of Responsible Officials.** Journal entries and monthly bank reconciliations will be signed and dated by the preparer and the reviewer. Deposit slips will be initialed and dated by the preparer. Cash deposits will be taken to the bank by the Business Office. Deposits made using the remote scanner will be verified by an independent reviewer. Accounts payable check runs will be approved by the Board prior to disbursement.

# HOUGHTON LAKE COMMUNITY SCHOOLS

## **Schedule of Findings and Questioned Costs** For the Year Ended June 30, 2023

### **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, 2023

### 2022-001 – Material Audit Adjustments

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 finding was resolved during 2023.

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

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. As a result of this condition, the District's schedule of expenditures of federal awards was initially misstated by a material amount. This finding was resolved during 2023.



# Houghton Lake Community Schools

4433 West Houghton Lake Drive • Houghton Lake, Michigan 48629

Houghton Lake Community Schools  
Corrective Action Plan  
6/30/2023

## **Finding #2023-001 – Lack of Independent Review and Approval of Reporting**

**Finding Summary:** During our review of cash, we noted there was no documentation of preparation and review on the bank reconciliations by two separate individuals and therefore we were unable to determine if the bank reconciliations were completed and reviewed in a timely manner after month-end and if appropriate segregation of duties are in place. Upon further inquiry of management, we noted that there is currently no review taking place of the bank reconciliations by an individual separate from the preparer of the bank reconciliations. We further noted that for one out of the four cash receipt walkthrough selections made, the deposit slip did not have documentation of who completed the deposit slip and who took the deposit to the bank to support proper segregation of duties. Additionally, during our review of journal entry testing, we noted that five out of the ten manual journal entries selected did not have documentation of preparation as evidenced by initials of the preparer and date completed. None of the ten journal entries selected had documentation of an independent reviewer. Upon further inquiry of management, there is currently no independent review of manual journal entries taking place. Lastly, during our cash disbursement walkthrough, one of the two cash disbursement selections was not reviewed or approved by the Board prior to the check run being made.

**Auditor Recommendation:** While there are no easy answers to the challenge of balancing the costs and benefits of internal control and segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation and approval of accounting functions by qualified members of management as possible.

### **Correction to be made:**

- Journal entries and monthly bank reconciliations will be signed and dated by the preparer and the reviewer.
- Deposit slips will be initialed and dated by the preparer.
- Cash deposits will be taken to the bank by the Business Office.
- Deposits made using the remote scanner will be verified by an independent reviewer.
- Accounts payable check runs will be approved by the Board prior to disbursement.

**Responsible person:** Leanna Hartman, Finance Director

**Anticipated Completion Date:** June 30, 2024