

HASTINGS AREA SCHOOL SYSTEM

REPORT ON FINANCIAL STATEMENTS
(with required supplementary and
additional supplementary information)

YEAR ENDED JUNE 30, 2021

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Hastings Area School System

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hastings Area School System, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Hastings Area School System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issue by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Hastings Area School System as of June 30, 2021, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principle

As discussed in Note 13 to the financial statements, Hastings Area School System implemented Governmental Accounting Standards Board Statements No. 84, *Fiduciary Activities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Hastings Area School System basic financial statements. The additional supplementary information, as identified in the table of contents, including the schedule of expenditures of federal awards as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The additional supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The additional supplementary 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 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 additional supplementary information is fairly stated, in all material respects, in relation to the 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 13, 2021 on our consideration of Hastings Area School System'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 Hastings Area School System'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 Hastings Area School System's internal control over financial reporting and compliance.

Manes Costeiran PC

October 13, 2021

HASTINGS AREA SCHOOL SYSTEM MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Hastings Area School System ("District") annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended on June 30, 2021. Please read it in conjunction with the District's financial statements which immediately follow this section.

District-Wide Financial Statements

The first two statements are District-wide financial statements that provide short-term and long-term financial information about the District's overall financial status. These statements are required by generally accepted accounting principles (GAAP) as described in the Government Accounting Standards Board (GASB) Statement No. 34. The statements are compiled using the full accrual basis of accounting and more closely represent financial statements presented by business and industry. All of the District's assets, deferred outflows of resources, liabilities and deferred inflows of resources, both short- and long-term, are reported. As such, these statements include capital assets, net of related depreciation, as well as the bonded debt and other long-term obligations of the District resulting in total net position.

Over time, increases or decreases in the District's net position is one indicator of whether its financial position is improving or deteriorating. To assess the District's overall financial health, one should consider additional factors which may include the State's and/or region's economic condition, changes in the District's property tax base, and age and condition of its capital assets.

Fund Financial Statements

For the most part, the fund financial statements are comparable to financial statements for the previous fiscal year. The fund level statements are reported on a modified accrual basis in that only those assets that are deemed "measurable" and "currently available" are reported. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources.

The formats of the fund statements comply with requirements of the Michigan Department of Education's "Accounting Manual". In the state of Michigan, school districts' major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in various other funds categorized as Special Revenue, Debt Service, and Capital Projects Funds.

In the fund financial statements, capital assets purchased are considered expenditures in the year of acquisition with no asset being reported. The issuance of debt is treated as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. The obligations for future years' debt service are not recorded in the fund financial statements.

**HASTINGS AREA SCHOOL SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Summary of Net Position

The following schedule summarizes the net position for the fiscal years ended June 30, 2021 and 2020:

	June 30, 2021	June 30, 2020
Assets		
Current and other assets	\$ 13,154,249	\$ 12,969,466
Capital assets	66,106,924	65,368,226
Total assets	79,261,173	78,337,692
Deferred outflows	13,621,347	16,145,939
Liabilities		
Long-term debt outstanding	47,028,052	50,140,094
Other liabilities	6,250,833	6,493,665
Net pension liability	47,180,666	45,375,728
Net other postemployment benefits liability	7,363,325	9,908,138
Total liabilities	107,822,876	111,917,625
Deferred inflows	8,195,411	8,157,848
Net position		
Net investment in capital assets	20,192,727	18,593,458
Restricted	1,926,656	1,164,307
Unrestricted	(45,255,150)	(45,349,607)
Total net position	\$ (23,135,767)	\$ (25,591,842)

Analysis of Financial Position

During the fiscal year ended June 30, 2021, the District's net position increased by \$1,894,313. A few of the more significant factors affecting net position during the year are discussed below:

➤ Cash Equivalents, Deposits and Investments

At June 30, 2021, the District's cash equivalents, deposits and investments amounted to \$8,763,772. This represented a decrease of \$207,526 from the previous year, primarily as a result of increased spending on capital improvements across the District using bond proceeds previously issued.

➤ Capital Outlay Acquisitions

For the fiscal year ended June 30, 2021, \$44,070,613 in capital outlay was placed into service as capital assets of the District, including \$41,736,872 of construction in progress. These additions to the District's capital assets will be depreciated over time as explained below.

The District also had \$21,439 of expenditures that were added to construction in progress. These additions to the District's capital assets will be depreciated once construction is complete and the assets are placed in service.

**HASTINGS AREA SCHOOL SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Analysis of Financial Position (continued)

➤ Capital Outlay Acquisitions (continued)

The net effect of the new capital assets, assets disposed of during the fiscal year, and the current year's depreciation is a net increase to capital assets in the amount of \$738,698 for the fiscal year ended June 30, 2021.

➤ Depreciation Expense

GASB 34 requires school districts to maintain records of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in the net position.

➤ Bonded Debt and Debt from Direct Borrowings

For the fiscal year ended June 30, 2021, the District's bonded debt and debt from direct borrowings decreased by \$3,123,146 as a result of repayment of previously issued debt. At fiscal year-end, approximately \$47.0 million was outstanding with \$2.8 million due within one year.

➤ Accumulated Compensated Absences

At June 30, 2021, the District had an obligation to employees for the portion of unearned compensated absences that they would be entitled to upon separation in the amount of approximately \$429,000.

Results of Operations

For the fiscal years ended June 30, 2021 and 2020, the results of operations, on a District-wide basis, were:

	Fiscal Year Ended June 30, 2021		Fiscal Year Ended June 30, 2020	
	Amount	%	Amount	%
General Revenues				
Property taxes	\$ 8,285,857	24.22%	\$ 8,108,399	24.51%
State sources, unrestricted	16,997,759	49.68%	16,467,960	49.78%
Investment earnings	32,229	0.09%	145,453	0.44%
Other	552,603	1.62%	444,126	1.34%
Total general revenues	25,868,448	75.61%	25,165,938	76.07%
Program Revenues				
Charges for services	826,832	2.42%	1,084,304	3.28%
Operating grants	7,043,347	20.58%	5,693,654	17.21%
Capital grants and contributions	477,728	1.39%	1,140,803	3.44%
Total revenue	34,216,355	100.00%	33,084,699	100.00%
Expenses				
Instruction	19,106,953	59.11%	19,527,092	59.27%
Support services	9,283,821	28.72%	9,335,597	28.34%
Community service	610,427	1.89%	828,862	2.52%
Food services	1,049,390	3.25%	1,157,060	3.51%
Student/school activities	280,101	0.87%	-	0.00%
Interest on long-term debt	1,991,350	6.16%	2,096,371	6.36%
Total expenses	32,322,042	100.00%	32,944,982	100.00%
Change in net position	\$ 1,894,313		\$ 139,717	

**HASTINGS AREA SCHOOL SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Analysis of Significant Revenues and Expenses

Significant revenues and expenditures are discussed in the segments below:

➤ Property Taxes

The District levied 17.9262 mills of property taxes for operations on non-principal residence exempt property for the 2020 tax year. According to Michigan law, the tax levy is based on the taxable valuation of properties. The annual taxable valuation increases are capped at the rate of increase in the prior year's Consumer Price Index or 5%, whichever is less. At the time that property is sold, its taxable valuation is readjusted to the State Equalized Value, which in theory is one half of the property's market value. At June 30, 2021, there were no unpaid property taxes.

➤ State Sources

The majority of the unrestricted state sources of revenues is comprised of the per student foundation allowance. The State of Michigan funds school districts based on a blended student enrollment which is calculated using 90% of the 2020 calendar year's fall count (October) and 10% of the 2020 calendar year's spring count (February). For the 2020-2021 fiscal year, the District received \$8,111 per student full time equivalent. The student foundation allowance amount was unchanged when compared to the 2019-2020 fiscal year.

➤ Operating Grants

The District receives a significant portion of its operating revenue from categorical grants. For the fiscal year ended June 30, 2021, federal, state, and other grants amounted to \$7,043,347. This represents a 23.7% increase from the \$5,693,654 received for the 2019-2020 fiscal year. The increase in revenue from categorical grants is primarily due to grants related to COVID-19 including the Coronavirus Relief Funds, and Elementary and Secondary School Emergency Relief.

Comparative Expenditures

A comparison of the expenditures reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances is shown below:

Expenditures	2020 - 2021	2019 - 2020	Increase (Decrease)
Instruction	\$ 16,187,077	\$ 16,240,542	\$ (53,465)
Supporting services	9,252,913	10,077,134	(824,221)
Community services	617,558	925,864	(308,306)
Food service activities	1,014,084	1,093,207	(79,123)
Student/school activities	280,101	-	280,101
Capital outlay	2,454,548	3,332,610	(878,062)
Debt service	4,827,773	4,893,433	(65,660)
Total expenditures	\$ 34,634,054	\$ 36,562,790	\$ (1,928,736)

**HASTINGS AREA SCHOOL SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS**

General Fund Budgetary Highlights

The Uniform Budgeting Act of the State of Michigan requires that the local Board of Education approve the annual operating budget prior to the start of the fiscal year on July 1. Any amendments to the original budget must be approved by the Board prior to the close of the fiscal year on June 30, 2021.

The following schedule shows a comparison of the original general fund budget, the final amended budget, and actual totals from operations for the fiscal year ending June 30, 2021.

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Final Variance with Budget</u>	<u>% Variance</u>
Total revenues	<u>\$ 23,183,574</u>	<u>\$ 27,374,094</u>	<u>\$ 27,510,227</u>	<u>\$ 136,133</u>	<u>0.50%</u>
Expenditures					
Instruction	\$ 15,505,340	\$ 16,270,311	\$ 16,187,077	\$ 83,234	0.51%
Support	8,257,536	9,513,263	9,252,913	260,350	2.74%
Community service	12,414	26,756	20,807	5,949	22.23%
Debt service	<u>396,165</u>	<u>396,166</u>	<u>432,340</u>	<u>(36,174)</u>	<u>-9.13%</u>
Total expenditures	<u>\$ 24,171,455</u>	<u>\$ 26,206,496</u>	<u>\$ 25,893,137</u>	<u>\$ 313,359</u>	<u>1.20%</u>
Other financing sources (uses)	<u>\$ (200,000)</u>	<u>\$ (375,000)</u>	<u>\$ (285,000)</u>	<u>\$ 90,000</u>	<u>-24.00%</u>

The original budget adopted by the Board in June 2020 was amended three times during the year. The amendments, approved in November 2020, April 2021, and June 2021, reflected necessary changes to both revenues and expenditures based on projections made by the Associate Superintendent of Operations.

Capital Asset and Debt Administration

Capital Assets

By the end of the 2020-2021 fiscal year, the District had invested approximately \$104.5 million as the original cost in a broad range of capital assets, including land, construction in progress, school buildings and facilities, school buses and other vehicles, and various types of equipment. This represents a net increase of \$738,698 over the prior fiscal year after depreciation. Depreciation expense for the year amounted to \$1,616,482 bringing the accumulated depreciation to roughly \$38.3 million as of June 30, 2021. For more information related to capital assets, see Note 4.

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>2021 Net Book Value</u>	<u>2020 Net Book Value</u>
Land	\$ 53,410	\$ -	\$ 53,410	\$ 53,410
Construction in progress	21,439	-	21,439	41,736,872
Buildings and building improvements	92,008,805	29,173,543	62,835,262	21,994,366
Buses and other vehicles	2,240,234	1,789,685	450,549	573,302
Furniture and equipment	<u>10,132,922</u>	<u>7,386,658</u>	<u>2,746,264</u>	<u>1,010,276</u>
Total	<u>\$ 104,456,810</u>	<u>\$ 38,349,886</u>	<u>\$ 66,106,924</u>	<u>\$ 65,368,226</u>

HASTINGS AREA SCHOOL SYSTEM MANAGEMENT'S DISCUSSION AND ANALYSIS

Long-term Obligations

At June 30, 2021, the District had approximately \$47.0 million in long-term obligations of which \$46.3 million was comprised of outstanding bonded debt and the remainder is installment loans. The long-term obligations decreased during the year with \$3,123,146 of previously outstanding bonds being redeemed and payments on the installment loans. In addition to the bonded debt and installment loans, the District has obligations for compensated absences estimated at approximately \$429,000. For more information related to long-term obligations see Note 6.

Factors Bearing on the District's Future

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

- The District's elected officials and administration considered many factors when setting the District's 2021-2022 fiscal year budgets. One of the most important factors affecting the budget is the student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2022 fiscal year is 90% and 10% of the October 2021 and February 2021 student counts, respectively. The 2021-2022 budget was adopted in June 2021, based on an estimate of students that will be enrolled in September 2021. Approximately 75% of total General Fund revenue is from the foundation allowance. Under State law, the District cannot access additional property tax revenue for general operations. As a result, District funding is heavily dependent on the State's ability to fund local school operations. Once the final student count and related per pupil funding is validated, State law requires the District to amend the budget if actual resources are not sufficient to fund original appropriations.
- Since the District's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts. The current COVID-9 pandemic makes these revenues even more volatile and necessary to watch. The State periodically holds a revenue-estimating conference to estimate revenues. The financial outlook for state revenues is currently more optimistic than it was prior year.
- Another important factor to watch is federal funding for Title I and Title II programs which help the neediest students and provides training for the District staff. The district has also incurred significant expenses due to the COVID 19 pandemic however additional federal assistance will be helpful in offsetting many of these expenses.

Contacting the District's Financial Management

This financial report is intended to provide taxpayers, parents, and investors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional information, please contact the Business Office, 232 West Grand Street, Hastings, Michigan 49058.

BASIC FINANCIAL STATEMENTS

**HASTINGS AREA SCHOOL SYSTEM
STATEMENT OF NET POSITION
JUNE 30, 2021**

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 7,984,984
Investments	778,788
Receivables	
Accounts	421,606
Intergovernmental	3,929,187
Inventories	39,374
Prepays	310
Capital assets not being depreciated	74,849
Capital assets, net of accumulated depreciation	66,032,075
TOTAL ASSETS	79,261,173
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charge on refunding, net of amortization	198,571
Related to pensions	9,919,901
Related to other postemployment benefits	3,502,875
TOTAL DEFERRED OUTFLOWS OF RESOURCES	13,621,347
LIABILITIES	
Accounts payable	253,474
Accrued salaries and related items	1,674,997
Accrued retirement	912,269
Accrued interest	300,204
Accrued liabilities	21,442
Unearned revenue	88,447
Note payable	3,000,000
Noncurrent liabilities:	
Due within one year	2,931,633
Due in more than one year	44,096,419
Net pension liability	47,180,666
Net other postemployment benefits liability	7,363,325
TOTAL LIABILITIES	107,822,876
DEFERRED INFLOWS OF RESOURCES	
Related to pensions	615,063
Related to other postemployment benefits	5,785,595
Related to state aid funding for pension benefits	1,794,753
TOTAL DEFERRED INFLOWS OF RESOURCES	8,195,411
NET POSITION	
Net investment in capital assets	20,192,727
Restricted for capital projects (sinking funds)	629,945
Restricted for debt service	1,296,711
Unrestricted	(45,255,150)
TOTAL NET POSITION	\$ (23,135,767)

See notes to financial statements.

**HASTINGS AREA SCHOOL SYSTEM
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2021**

Functions/Programs	Expenses	Program Revenues			Governmental Activities
		Charges for Services	Operating Grants	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Governmental activities					
Instruction	\$ 19,106,953	\$ 6,180	\$ 4,709,387	\$ -	\$ (14,391,386)
Supporting services	9,283,821	197,219	1,301,804	366,826	(7,417,972)
Community service	610,427	386,155	127,137	-	(97,135)
Food service	1,049,390	90,729	905,019	-	(53,642)
Student/school activities	280,101	146,549	-	-	(133,552)
Interest on long-term debt	1,991,350	-	-	110,902	(1,880,448)
Total governmental activities	<u>\$ 32,322,042</u>	<u>\$ 826,832</u>	<u>\$ 7,043,347</u>	<u>\$ 477,728</u>	<u>(23,974,135)</u>
General revenues					
Property taxes, levied for general purposes					3,261,498
Property taxes, levied for debt service					4,402,187
Property taxes, levied for sinking fund					622,172
Special education county allocation					274,362
State sources - unrestricted					16,997,759
Investment earnings					32,229
Other revenue					278,241
Total general revenues					<u>25,868,448</u>
CHANGE IN NET POSITION					1,894,313
NET POSITION, beginning of year, as restated					<u>(25,030,080)</u>
NET POSITION, end of year					<u>\$ (23,135,767)</u>

See notes to financial statements.

**HASTINGS AREA SCHOOL SYSTEM
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2021**

	General Fund	Debt Service	2016 Building and Site Fund (Capital Project)	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 5,035,990	\$ 1,596,915	\$ -	\$ 1,352,079	\$ 7,984,984
Investments	240,032	-	538,756	-	778,788
Receivables					
Accounts	419,706	-	-	1,900	421,606
Intergovernmental	3,910,102	-	-	19,085	3,929,187
Due from other funds	230	-	-	-	230
Inventories	21,041	-	-	18,333	39,374
Prepays	310	-	-	-	310
TOTAL ASSETS	\$ 9,627,411	\$ 1,596,915	\$ 538,756	\$ 1,391,397	\$ 13,154,479
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 164,494	\$ -	\$ 52,385	\$ 36,595	\$ 253,474
Accrued salaries and related items	1,669,056	-	-	5,941	1,674,997
Accrued retirement	911,443	-	-	826	912,269
Accrued liabilities	21,442	-	-	-	21,442
Unearned revenue	70,000	-	-	18,447	88,447
Due to other funds	-	-	-	230	230
Note payable	3,000,000	-	-	-	3,000,000
TOTAL LIABILITIES	5,836,435	-	52,385	62,039	5,950,859
FUND BALANCES					
Nonspendable					
Inventories	21,041	-	-	18,333	39,374
Prepays	310	-	-	-	310
Restricted for:					
Debt service	-	1,596,915	-	-	1,596,915
Capital projects	-	-	486,371	629,945	1,116,316
Community Center	-	-	-	1,210	1,210
Food service	-	-	-	51,660	51,660
Committed for:					
Student/school activities	-	-	-	428,210	428,210
Capital projects	525,000	-	-	-	525,000
Assigned for:					
Capital projects	-	-	-	200,000	200,000
Unassigned	3,244,625	-	-	-	3,244,625
TOTAL FUND BALANCES	3,790,976	1,596,915	486,371	1,329,358	7,203,620
TOTAL LIABILITIES AND FUND BALANCES	\$ 9,627,411	\$ 1,596,915	\$ 538,756	\$ 1,391,397	\$ 13,154,479

See notes to financial statements.

**HASTINGS AREA SCHOOL SYSTEM
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE
SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2021**

Total governmental fund balances		\$ 7,203,620
Amounts reported for governmental activities in the statement of net position are different because:		
Deferred outflows of resources - deferred charges on refunding, net of amortization		198,571
Deferred outflows of resources - related to pensions		9,919,901
Deferred inflows of resources - related to pensions		(615,063)
Deferred outflows of resources - related to other postemployment benefits		3,502,875
Deferred inflows of resources - related to other postemployment benefits		(5,785,595)
Deferred inflows of resources - related to state funding for pension benefits		(1,794,753)
Capital assets used in governmental activities are not financial resources and are not reported in the funds:		
The cost of the capital assets is	\$ 104,456,810	
Accumulated depreciation is	<u>(38,349,886)</u>	
		66,106,924
Long-term liabilities are not due and payable in the current period and are not reported in the funds:		
Long-term debt obligation		(46,599,139)
Compensated absences		(428,913)
Accrued interest is not included as a liability in governmental funds, it is recorded when paid, net of federal subsidies		(300,204)
Net pension liability		(47,180,666)
Net other postemployment benefits liability		<u>(7,363,325)</u>
Net position of governmental activities		<u>\$ (23,135,767)</u>

HASTINGS AREA SCHOOL SYSTEM
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2021

	General Fund	Debt Service	2016 Building and Site Fund (Capital Project)	Total Nonmajor Funds	Total Governmental Funds
REVENUES					
Local sources	\$ 3,997,322	\$ 4,579,889	\$ 138,145	\$ 1,265,543	\$ 9,980,899
State sources	21,499,280	45,369	-	58,668	21,603,317
Federal sources	1,734,942	-	-	953,628	2,688,570
Incoming transfers and other	278,683	-	-	-	278,683
TOTAL REVENUES	27,510,227	4,625,258	138,145	2,277,839	34,551,469
EXPENDITURES					
Current					
Instruction	16,187,077	-	-	-	16,187,077
Supporting services	9,252,913	-	-	-	9,252,913
Community service	20,807	-	-	596,751	617,558
Food service	-	-	-	1,014,084	1,014,084
Student/school activities	-	-	-	280,101	280,101
Capital outlay	-	-	2,350,149	104,399	2,454,548
Debt service	432,340	4,395,433	-	-	4,827,773
TOTAL EXPENDITURES	25,893,137	4,395,433	2,350,149	1,995,335	34,634,054
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	1,617,090	229,825	(2,212,004)	282,504	(82,585)
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	285,000	285,000
Transfers out	(285,000)	-	-	-	(285,000)
TOTAL OTHER FINANCING SOURCES (USES)	(285,000)	-	-	285,000	-
NET CHANGE IN FUND BALANCES	1,332,090	229,825	(2,212,004)	567,504	(82,585)
FUND BALANCES					
Beginning of year, as restated	2,458,886	1,367,090	2,698,375	761,854	7,286,205
End of year	<u>\$ 3,790,976</u>	<u>\$ 1,596,915</u>	<u>\$ 486,371</u>	<u>\$ 1,329,358</u>	<u>\$ 7,203,620</u>

See notes to financial statements.

**HASTINGS AREA SCHOOL SYSTEM
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF THE GOVERNMENTAL
FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2021**

Net change in fund balances total governmental funds	\$ (82,585)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. In the statement of activities these costs are allocated over their estimated useful lives as depreciation.	
Depreciation expense	(1,616,482)
Capital outlay	2,355,180
Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid.	
Accrued interest payable, beginning of the year	314,418
Accrued interest payable, end of the year	(300,204)
The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The effect of these differences is the treatment of long-term debt and related items and are as follows:	
Payments on debt obligations	2,822,090
Amortization of bond premium	301,056
Amortization of deferred charge on refunding	(50,571)
Revenue is recorded on the accrual method in the statement of activities; in the governmental funds it is recorded on the modified accrual method and not considered available.	
Unavailable revenue, beginning of year	(65,776)
Unavailable revenue, end of year	-
Compensated absences are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds.	
Accrued compensated absences, beginning of the year	417,809
Accrued compensated absences, end of the year	(428,913)
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 governmental funds.	
Pension related items	(2,729,916)
Other postemployment benefits related items	1,227,545
Restricted revenue reported in the governmental funds that is deferred to offset the deferred outflows related to section 147c pension benefits contributions subsequent to the measurement period.	
Pension benefit related items, beginning of year	1,525,415
Pension benefit related items, end of year	(1,794,753)
Change in net position of governmental activities	\$ 1,894,313

See notes to financial statements.

**HASTINGS AREA SCHOOL SYSTEM
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Government-wide 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 nonfiduciary activities of the District. *Governmental activities* normally are supported by taxes and intergovernmental revenues.

Reporting Entity

The Hastings Area School System (the "District") is governed by the Hastings Area School System Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board (GASB) Statements.

Basis of Presentation - Government-wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from the governmental funds.

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

Basis of Presentation - Fund Financial Statements

The fund financial statements provide information about the District's funds. The emphasis of fund financial statements is on major governmental funds. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

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 required to be accounted for in another fund.

The *2016 Building and Site Fund* accounts for the receipt of debt proceeds and the accounting for major capital projects related to the 2016 Building and Site Bonds.

The *2016 Building and Site Fund* includes capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the school district has complied with the applicable provisions of §1351a of the Revised School Code in the current and prior years.

**HASTINGS AREA SCHOOL SYSTEM
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Presentation - Fund Financial Statements (continued)

Beginning with the year of bond issuance, the District has reported annual construction activity in the capital projects 2016 Building and Site Fund. As of June 30, 2021, the bonds have been determined to be substantively completed. The following is a summary of the cumulative revenue, other financing sources (uses), and expenditures for the 2016 Building and Site Fund activity:

Revenue and other financing sources	<u>\$ 46,075,750</u>
Expenditures and other financing uses	<u>\$ 45,589,379</u>

The above revenue figure includes the total 2016 bond proceeds and issuance premium of \$44,744,228.

The *Debt Service Fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Nonmajor Funds

Special revenue funds account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its food service, community center, and student/school activities as special revenue funds.

The *Capital Projects Sinking Fund* accounts for the receipt of property taxes levied for sinking fund and subsequent expenditures of those funds. The fund has complied with the applicable provisions of Section 1212(1) of the Revised School Code and the State of Michigan Department of Treasury Letter No. 01-95.

The *Capital Projects and Technology* fund accounts for costs of technology and other capital improvements. The general fund finances this fund and is budgeted annually.

During the course of operations, the District has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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

**HASTINGS AREA SCHOOL SYSTEM
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus and Basis of Accounting (continued)

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.

The 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 generally collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, state and federal aid, 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. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end).

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the current year ended, the foundation allowance was based on pupil membership counts.

The state portion of the Foundation is provided primarily by a state education property tax millage of 6 mills on Principal Residence Exemption (PRE) property and an allocated portion of state sales and other taxes. The local portion of the Foundation is funded primarily by Non-PRE property taxes which may be levied at a rate of up to 18 mills as well as 6 mills for Commercial Personal Property Tax. The state revenue is recognized during the foundation period and is funded through payments from October to August. Thus, the unpaid portion at June 30 is reported as an intergovernmental receivable.

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

**HASTINGS AREA SCHOOL SYSTEM
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus and Basis of Accounting (continued)

All other revenue items are generally considered to be measurable and available only when cash is received by the District.

Budgetary Information

Budgetary Basis of Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund and special revenue funds. Other funds do not have appropriated budgets.

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances are commitments related to unperformed (executor) contracts for goods or services (i.e., purchase orders, contracts, and commitments). The District does not utilize encumbrance accounting.

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

- a. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the general fund are noted in the required supplementary information section.
- d. Transfers may be made for budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
- e. The budget was amended during the year with supplemental appropriations, the last one approved prior to year end June 30, 2021. The District does not consider these amendments to be significant.

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of 3 months or less from the date of acquisition.

**HASTINGS AREA SCHOOL SYSTEM
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (continued)

Investments

In accordance with Michigan Compiled Laws, the District is authorized to invest in the following investment vehicles:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation (FDIC) or a savings and loan association which is a member of the Federal Savings and Loan Insurance Corporation (FSLIC) or a credit union which is insured by the National Credit Union Administration (NCUA), but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
- c. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services, and which matures not more than 270 days after the date of purchase.
- d. The United States government or federal agency obligations repurchase agreements.
- e. Bankers acceptances of United States banks.
- f. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Michigan Compiled Laws allow for collateralization of government deposits, if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Inventories and Prepaid Items

Inventories are valued at cost using the first-in/first-out (FIFO) method and consist of expendable supplies. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

**HASTINGS AREA SCHOOL SYSTEM
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (continued)

Capital Assets

Capital assets, which include property, plant, equipment, and transportation vehicles, are reported 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 two years. Group purchases are evaluated on a case-by-case basis. Donated capital assets are recorded at their estimated acquisition value at the date of donation.

Land is not depreciated. The other property, plant, and equipment of the District are depreciated using the straight-line method over the following estimated useful lives:

<u>Capital Asset Classes</u>	<u>Lives</u>
Buildings and building improvements	5 - 50 years
Buses and other vehicles	5 - 10 years
Furniture and equipment	3 - 20 years

Defined Benefit Plans

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

Deferred Outflows

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District has three items that qualify for reporting in this category. They are the deferred charge on refunding, pension and other postemployment benefits related items reported in the government-wide statement of net position. A deferred charge on refunding 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. A deferred outflow is recognized for pension and other postemployment benefit related items. These amounts are expensed in the plan year in which they apply.

**HASTINGS AREA SCHOOL SYSTEM
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (continued)

Deferred Inflows

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has three items that qualify for reporting in this category. The first is restricted section 147c state aid deferred to offset deferred outflows related to section 147c pension contributions subsequent to the measurement period. The second and third items are future resources yet to be recognized in relation to the pension and other postemployment benefit actuarial calculation. These future resources arise from differences in the estimates used by the actuary to calculate the pension and other postemployment benefit liability and the actual results. The amounts are amortized over a period determined by the actuary.

Net Position Flow Assumption

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

Fund Balance Flow Assumptions

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The District itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision-making authority. The Board of Education is the highest level of decision-making authority for the District that can, by adoption of a board action prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the board action remains in place until a similar action is taken (the adoption of another board action) to remove or revise the limitation.

**HASTINGS AREA SCHOOL SYSTEM
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (continued)

Fund Balance Policies (continued)

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. The Board of Education may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Revenues and Expenditures/Expenses

Program Revenues

Amounts reported as *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 requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, unrestricted state aid, interest, and other internally dedicated resources are reported as general revenues rather than as program revenues.

Property Taxes

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

For the year ended June 30, 2021, the District levied the following amounts per \$1,000 of assessed valuation:

Fund	Mills
General Fund	
Non-Principal Residence Exemption (PRE)	17.9262
Commercial Personal Property	5.9262
Debt Service Fund	
PRE, Non-PRE, Commercial Personal Property	6.9000
Sinking Fund	
PRE, Non-PRE, Commercial Personal Property	0.9733

Compensated Absences

The District's policy permits employees to accumulate earned but unused vacation and sick leave benefits, which are eligible for payment upon separation from service. The liability for such leave is reported as incurred in the government-wide financial statements. A liability for those amounts is recorded in the governmental funds only if the liability has matured as a result of employee leaves, resignations or retirements. The liability for compensated absences includes salary and related benefits, where applicable.

**HASTINGS AREA SCHOOL SYSTEM
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method over the term of the related debt. Bond issuance costs are reported as expenditures in the year in which they are 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.

NOTE 2 - DEPOSITS AND INVESTMENTS

As of June 30, 2021, the District had deposits and investments subject to the following risk:

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2021, \$8,112,397 of the District's bank balance of \$8,624,270 was exposed to custodial credit risk because it was uninsured and uncollateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name. The above amounts include interest bearing accounts. The carrying value on the books for deposits at the end of the year was \$7,984,984.

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.

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, 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.

Interest Rate Risk

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

**HASTINGS AREA SCHOOL SYSTEM
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - DEPOSITS AND INVESTMENTS (continued)

Interest Rate Risk (continued)

Investment Type	Fair Value	Weighted Average Maturity (Years)
MILAF External Investment Pool - MAX	\$ 774,530	N/A
MILAF External Investment Pool - CMC	4,258	N/A
Total fair value	<u>\$ 778,788</u>	
Portfolio weighted average maturity		<u>N/A</u>

One day maturity equals 0.0027, one year equals 1.00

Concentration of Credit Risk

The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Investment Type	Fair Value	Rating	Rating Agency
MILAF External Investment Pool - MAX	\$ 774,530	AAAm	Standard & Poor's
MILAF External Investment Pool - CMC	4,258	AAAm	Standard & Poor's
Total	<u>\$ 778,788</u>		

Foreign Currency Risk

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

Fair Value Measurement

The District is required to disclose amounts within a framework established for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

- Level 1: Quoted prices in active markets for identical securities.
- Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include prices for similar securities, interest rates, prepayment speeds, credit risk and others.

**HASTINGS AREA SCHOOL SYSTEM
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - DEPOSITS AND INVESTMENTS (continued)

Fair Value Measurement (continued)

Level 3: Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant, unobservable inputs may be used. Unobservable inputs reflect the District's own assumptions about the factors market participants would use in pricing an investment and would be based on the best information available.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The District does not have any investments subject to the fair value measurement.

The District voluntarily invests certain excess funds in external pooled investment funds which included money market funds. One of the pooled investment funds utilized by the District is the Michigan Investment Liquid Asset Fund (MILAF). MILAF Max Class and MILAF Cash Management Class funds are considered external investment pools as defined by the GASB and as such are recorded at amortized cost which approximate fair value. These funds require notification of redemptions prior to 14 days to avoid penalties and are not subject to the fair value disclosures.

	Amortized Cost
MILAF External Investment Pool - MAX	\$ 774,530
MILAF External Investment Pool - CMC	4,258
	\$ 778,788

The cash and cash equivalents and investments referred to above have been reported in either the cash and cash equivalents or investments captions in the financial statements, based on criteria disclosed in Note 1.

The following summarizes the categorizations of these amounts presented in the financial statements as of June 30, 2021:

Cash and cash equivalents	\$ 7,984,984
Investments	778,788
	\$ 8,763,772

**HASTINGS AREA SCHOOL SYSTEM
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - INTERGOVERNMENTAL RECEIVABLES

Intergovernmental receivables at June 30, 2021 consist of the following:

Governmental units	
State revenue	\$ 3,897,516
Federal revenue	<u>31,671</u>
	<u><u>\$ 3,929,187</u></u>

No allowance for doubtful accounts is considered necessary based on previous experience.

NOTE 4 - CAPITAL ASSETS

A summary of changes in the District's capital assets follows:

	Balance July 1, 2020	Additions/ Reclassifications	Deletions/ Reclassifications	Balance June 30, 2021
Capital assets not being depreciated				
Land	\$ 53,410	\$ -	\$ -	\$ 53,410
Construction in progress	<u>41,736,872</u>	<u>21,439</u>	<u>41,736,872</u>	<u>21,439</u>
Total capital assets not being depreciated	<u>41,790,282</u>	<u>21,439</u>	<u>41,736,872</u>	<u>74,849</u>
Capital assets being depreciated				
Buildings and building improvements	49,916,088	42,092,717	-	92,008,805
Buses and other vehicles	2,251,116	29,702	40,584	2,240,234
Furniture and equipment	<u>8,331,568</u>	<u>1,948,194</u>	<u>146,840</u>	<u>10,132,922</u>
Total capital assets being depreciated	<u>60,498,772</u>	<u>44,070,613</u>	<u>187,424</u>	<u>104,381,961</u>
Less accumulated depreciation				
Buildings and building improvements	(27,921,722)	(1,251,821)	-	(29,173,543)
Buses and other vehicles	(1,677,814)	(152,455)	(40,584)	(1,789,685)
Furniture and equipment	<u>(7,321,292)</u>	<u>(212,206)</u>	<u>(146,840)</u>	<u>(7,386,658)</u>
Total accumulated depreciation	<u>(36,920,828)</u>	<u>(1,616,482)</u>	<u>(187,424)</u>	<u>(38,349,886)</u>
Net capital assets being depreciated	<u>23,577,944</u>	<u>42,454,131</u>	<u>-</u>	<u>66,032,075</u>
Capital assets, net	<u><u>\$ 65,368,226</u></u>	<u><u>\$ 42,475,570</u></u>	<u><u>\$ 41,736,872</u></u>	<u><u>\$ 66,106,924</u></u>

**HASTINGS AREA SCHOOL SYSTEM
NOTES TO FINANCIAL STATEMENTS**

NOTE 4 - CAPITAL ASSETS (continued)

Depreciation for the fiscal year ended June 30, 2021 amounted to \$1,616,482. The District allocated depreciation to the various activities as follows:

Instruction	\$ 1,293,186
Support services	<u>323,296</u>
	<u><u>\$ 1,616,482</u></u>

NOTE 5 - NOTE PAYABLE - STATE AID ANTICIPATION NOTE

At June 30, 2021, the District has issued a state aid anticipation note payable outstanding of \$3,000,000. Proceeds of the note were used to fund school operations. The note is through Horizon Bank and has the following interest rate and maturity:

Note	Amount	Interest Rate	Maturity Date
2020-1	\$ 3,000,000	0.83%	August 20, 2021

The state aid anticipation note is secured by the full faith and credit of the District as well as pledged state aid. In an event of a default on the note, the note is payable from tax levies within the issuer's constitutional or statutory limitations, or of unencumbered funds of the issuer. Note 2020-1 has no required payments during the year and may be paid in whole or in part, without penalty, prior to maturity. Activity for the year ended June 30, 2021 is as follows:

Balance July 1, 2020	Additions	Payments	Balance June 30, 2021
<u>\$ 2,600,000</u>	<u>\$ 3,000,000</u>	<u>\$ 2,600,000</u>	<u>\$ 3,000,000</u>

NOTE 6 - LONG-TERM OBLIGATIONS

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

	General Obligation Bonds	Notes from Direct Borrowings and Direct Placements	Accumulated Compensated Absences	Total
Balance, July 1, 2020	\$ 49,272,622	\$ 449,663	\$ 417,809	\$ 50,140,094
Additions	-	-	135,025	135,025
Deletions	<u>(2,971,426)</u>	<u>(151,720)</u>	<u>(123,921)</u>	<u>(3,247,067)</u>
Balance, June 30, 2021	46,301,196	297,943	428,913	47,028,052
Due within one year	<u>2,648,570</u>	<u>155,848</u>	<u>127,215</u>	<u>2,931,633</u>
Due in more than one year	<u>\$ 43,652,626</u>	<u>\$ 142,095</u>	<u>\$ 301,698</u>	<u>\$ 44,096,419</u>

**HASTINGS AREA SCHOOL SYSTEM
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - LONG-TERM OBLIGATIONS (continued)

Long-term obligations at June 30, 2021 is comprised of the following issues:

General Obligation Bonds

2010 School Building and Site Bonds - \$3,200,000, due in annual principal installments of \$400,000 through May 1, 2026, with interest ranging from 5.00% to 5.25%, payable semi-annually.	\$ 2,000,000
2015 Refunding Bonds - \$4,600,000, due in annual principal installments, ranging from \$750,000 to \$765,000 through May 1, 2022, with an interest rate of 2.00%, payable semi-annually.	750,000
2016 Refunding Bonds - \$2,820,000, due in annual principal installments, ranging from \$690,000 to \$715,000 from May 1, 2023, through May 1, 2026, with an interest rate of 4.00%, payable semi-annually.	2,820,000
2016 Building and Site Bonds - \$39,710,000, due in annual principal installments, ranging from \$1,175,000 to \$2,450,000 through May 1, 2040, with interest ranging from 3.25% to 5.00%, payable semi-annually.	35,410,000
2007 Energy Conservation Bonds - \$2,079,765, due in semi-annual installments ranging from \$29,108 to \$134,462 through May 24, 2022, with an interest rate of 4.02%, payable semi-annually.	163,570
Add issuance premiums	<u>5,157,625</u>
Total general obligation bonds	<u>46,301,195</u>

Notes from Direct Borrowings and Direct Placements

Buses Installment Loan, dated August 3, 2017 - \$435,709, due in annual installments of \$86,108 to \$89,043 through November 21, 2021, with an interest rate of 1.69%, payable annually.	89,043
Buses Installment Loan, dated July 23, 2019 - \$170,192, due in annual installments of \$32,845 to \$35,102 through December 20, 2023, with an interest rate of 2.240%, payable annually.	103,015
Capital Copier Lease, dated August 6, 2019 - \$164,460, due in quarterly installments of \$7,126 to \$9,286 through May 8, 2024, with an interest rate of 5.926%, payable quarterly.	102,908
Capital Copier Lease, dated October 28, 2019 - \$4,500, due in quarterly installments of \$189 to \$274 through May 8, 2024, with an interest rate of 5.926%, payable quarterly.	<u>2,978</u>
Total notes from direct borrowings and direct placements	<u>297,944</u>
Total general obligation bonds and notes from director borrowings and direct placements	46,599,139
Accumulated compensated absences	<u>428,913</u>
Total long-term obligations	<u><u>\$ 47,028,052</u></u>

**HASTINGS AREA SCHOOL SYSTEM
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - LONG-TERM OBLIGATIONS (continued)

The District's outstanding notes from direct borrowings and direct placements related to governmental activities of \$297,944 contains provisions that in an event of default, either by (1) unable to make principal or interest payments (2) false or misrepresentation is made to the lender (3) become insolvent or make an assignment for the benefit of its creditors (4) if the lender at any time in good faith believes that the prospect of payment of any indebtedness is impaired. Upon the occurrence of any default event, the outstanding amounts, including accrued interest become immediately due and payable.

The District has previously defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. At June 30, 2021, \$7,725,000 of bonds outstanding are considered defeased.

The annual requirements to amortize long-term obligations outstanding exclusive of compensated absences payments as of June 30, 2021, are as follows:

Year Ending June 30,	General Obligation Bonds		Notes from Direct Borrowings and Direct Placements		Compensated Absences	Total
	Principal	Interest	Principal	Interest		
2022	\$ 2,648,570	\$ 1,882,298	\$ 155,849	\$ 9,403	\$ -	\$ 4,696,120
2023	2,540,000	1,776,475	69,586	5,116	-	4,391,177
2024	2,600,000	1,657,825	72,509	2,194	-	4,332,528
2025	2,615,000	1,560,075	-	-	-	4,175,075
2026	2,665,000	1,458,100	-	-	-	4,123,100
2027-2031	8,500,000	6,093,750	-	-	-	14,593,750
2032-2036	10,125,000	3,918,750	-	-	-	14,043,750
2037-2040	9,450,000	1,198,750	-	-	-	10,648,750
	41,143,570	19,546,023	297,944	16,713	-	61,004,250
Issuance premiums	5,157,625	-	-	-	-	5,157,625
Compensated absences	-	-	-	-	428,913	428,913
	<u>\$ 46,301,195</u>	<u>\$ 19,546,023</u>	<u>\$ 297,944</u>	<u>\$ 16,713</u>	<u>\$ 428,913</u>	<u>\$ 66,590,788</u>

Interest expense (all funds) for the year ended June 30, 2021 was approximately \$1,991,000.

The 2010 School Building and Site Bonds gross interest payments due are reflected as part of the above annual requirements for the general obligation bonds. These bonds were issued under the Federal government's "Build America Bonds" program. It is the expectation of the District that through this program they will receive an interest subsidy credit payment from the Federal government each time interest payments are made on these bonds. The above schedule, in relation to the 2010 Series Bonds, include a cumulative gross amount of interest due of \$312,000. Of this amount, there is an expected interest subsidy to be received over the life of the bonds in the cumulative amount of \$293,400, and net interest owed by the District over the life of the bonds of \$18,600.

**HASTINGS AREA SCHOOL SYSTEM
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - INTERFUND RECEIVABLES AND PAYABLES

Interfund payable and receivable balances at June 30, 2021 are as follows:

Receivable Fund	Payable Fund				
<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">General fund</td> <td style="text-align: right; border-bottom: 3px double black;">\$ 230</td> </tr> </table>	General fund	\$ 230	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Student/school activities</td> <td style="text-align: right; border-bottom: 3px double black;">\$ 230</td> </tr> </table>	Student/school activities	\$ 230
General fund	\$ 230				
Student/school activities	\$ 230				

The outstanding balances between funds result mainly 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.

NOTE 8 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS

Plan Description

The Michigan Public School Employees’ Retirement System (MPERS) (System) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the Board’s authority to promulgate or amend the provisions of the System. MPERS issues a publicly available Comprehensive Annual Financial Report that can be obtained at www.michigan.gov/ors schools.

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 option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees’ Retirement Act.

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 of Michigan Investment Board serves as the investment fiduciary and custodian for the System.

Benefits Provided - Overall

Participants are enrolled in one of multiple plans based on date of hire and certain voluntary elections. A summary of the plans offered by MPERS is as follows:

<u>Plan Name</u>	<u>Plan Type</u>	<u>Plan Status</u>
Basic	Defined Benefit	Closed
Member Investment Plan (MIP)	Defined Benefit	Closed
Pension Plus	Hybrid	Closed
Pension Plus 2	Hybrid	Open
Defined Contribution	Defined Contribution	Open

**HASTINGS AREA SCHOOL SYSTEM
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Benefits Provided - Pension

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. Retirement benefits for DB plan members are determined by final average compensation and years of service. 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.

Prior to Pension reform of 2010 there were two plans commonly referred to as Basic and the Member Investment Plan (MIP). Basic Plan member's contributions range from 0% - 4%. On January 1, 1987, the Member Investment Plan (MIP) was enacted. MIP members enrolled prior to January 1, 1990, contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990, or later including Pension Plus Plan members, contribute at various graduated permanently fixed contribution rates from 3.0% - 7.0%.

Pension Reform 2010

On May 19, 2010, the Governor signed Public Act 75 of 2010 into law. As a result, any member of the Michigan Public School Employees' Retirement System (MPERS) who became a member of MPERS after June 30, 2010 is a Pension Plus member. Pension Plus is a hybrid plan that contains a pension component with an employee contribution (graded, up to 6.4% of salary) and a flexible and transferable defined contribution (DC) tax-deferred investment account that earns an employer match of 50% (up to 1% of salary) on employee contributions. Retirement benefits for Pension Plus members are determined by final average compensation and years of service. Disability and survivor benefits are available to Pension Plus members.

Pension Reform 2012

On September 4, 2012, the Governor signed Public Act 300 of 2012 into law. The legislation grants all active members who first became a member before July 1, 2010 and 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 pension. Any changes to a member's pension 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 the reform, members voluntarily chose to increase, maintain, or stop their contributions to the pension fund.

An amount determined by the member's election of Option 1, 2, 3, or 4 described below:

Option 1 - Members voluntarily elected to increase their contributions to the pension fund as noted below and retain the 1.5% pension factor in their pension formula. The increased contribution would begin as of their transition date and continue until they terminate public school employment.

- Basic plan members: 4% contribution
- Member Investment Plan (MIP)-Fixed, MIP-Graded, and MIP-Plus members: a flat 7% contribution

**HASTINGS AREA SCHOOL SYSTEM
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Pension Reform 2012 (continued)

Option 2 - Members voluntarily elected to increase their contribution to the pension fund as stated in Option 1 and retain the 1.5% pension factor in their pension formula. The increased contribution would begin as of their transition date and continue until they reach 30 years of service. If and when they reach 30 years of service, their contribution rates will return to the previous level in place as of the day before their transition date (0% for Basic plan members, 3.9% for MIP-Fixed, up to 4.3% for MIP-Graded, or up to 6.4% for MIP-Plus). The pension formula for any service thereafter would include a 1.25% pension factor.

Option 3 - Members voluntarily elected not to increase their contribution to the pension fund and maintain their current level of contribution to the pension fund. The pension formula for their years of service as of the day before their transition date will include a 1.5% pension factor. The pension formula for any service thereafter will include a 1.25% pension factor.

Option 4 - Members voluntarily elected to no longer contribute to the pension fund and therefore are switched to the Defined Contribution plan for future service as of their transition date. As a DC participant they receive a 4% employer contribution to the tax-deferred 401(k) account and can choose to contribute up to the maximum amounts permitted by the IRS to a 457 account. They vest in employer contributions and related earnings in their 401(k)-account based on the following schedule: 50% at 2 years, 75% at 3 years, and 100% at 4 years of service. They are 100% vested in any personal contributions and related earnings in their 457 account. Upon retirement, if they meet age and service requirements (including their total years of service), they would also receive a pension (calculated based on years of service and final average compensation as of the day before their transition date and a 1.5% pension factor).

Members who did not make an election before the deadline defaulted to Option 3. Deferred or nonvested public school employees on September 3, 2012, who return to public school employment on or after September 4, 2012, will be considered as if they had elected Option 3. Returning members who made the retirement plan election will retain whichever option they chose.

Employees who first work on or after September 4, 2012 choose between two retirement plans: the Pension Plus Plan and a Defined Contribution that provides a 50% employer match up to 3% of salary on employee contributions.

Final Average Compensation (FAC) - Average of highest 60 consecutive months for Basic Plan members and Pension Plus members (36 months for MIP members). FAC is calculated as of the last day worked unless the member elected Option 4, in which case the FAC is calculated at the transition date.

Pension Reform of 2017

On July 13, 2017, the Governor signed Public Act 92 of 2017 into law. The legislation closes the current hybrid plan (Pension Plus) to newly hired employees as of February 1, 2018 and creates a new optional revised hybrid plan with similar plan benefit calculations but containing a 50/50 cost share between the employee and the employer, including the cost of future unfunded liabilities. The assumed rate of return on the new hybrid plan is 6%. Further, the law provides that, under certain conditions, the new hybrid plan would close to new employees if the actuarial funded ratio falls below 85% for two consecutive years. The law includes other provisions to the retirement eligibility age, plan assumptions, and unfunded liability payment methods.

**HASTINGS AREA SCHOOL SYSTEM
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Benefits Provided - Other Postemployment Benefit (OPEB)

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 health care 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.

Retiree Healthcare Reform of 2012

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 will be deposited into their 401(k) accounts.

Regular Retirement (no reduction factor for age)

Eligibility - A Basic plan member may retire at age 55 with 30 years credited service; or age 60 with 10 years credited service. For Member Investment Plan (MIP) members, age 46 with 30 years credited service; or age 60 with 10 years credited service; or age 60 with 5 years of credited service provided member worked through 60th birthday and has credited service in each of the last 5 years. For Pension Plus Plan (PPP) members, age 60 with 10 years of credited service.

Annual Amount - The annual pension is paid monthly for the lifetime of a retiree. The calculation of a member's pension is determined by their pension election under PA 300 of 2012.

Member Contributions

Depending on the plan selected, member contributions range from 0% - 7% for pension and 0% - 3% for other postemployment benefits. Plan members electing the Defined Contribution plan are not required to make additional contributions.

**HASTINGS AREA SCHOOL SYSTEM
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Employer Contributions

Employers are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of pension benefits and OPEB. 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 normal cost is the annual cost assigned under the actuarial funding method, to the current and subsequent plan years. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis.

Pension and OPEB contributions made in the fiscal year ending September 30, 2020 were determined as of the September 30, 2017 actuarial valuations. The pension and OPEB benefits, the unfunded (overfunded) actuarial accrued liabilities as of September 30, 2017 are amortized over a 19-year period beginning October 1, 2019 and ending September 30, 2038.

School districts' contributions are determined based on employee elections. There are several different benefit options included in the plan available to employees based on date of hire. Contribution rates are adjusted annually by the ORS. The range of rates is as follows:

	Pension	Other Postemployment Benefit
October 1, 2019 - September 30, 2020	13.39% - 19.59%	7.57% - 8.09%
October 1, 2020 - September 30, 2021	13.39% - 19.78%	7.57% - 8.43%

The District's pension contributions for the year ended June 30, 2021 were equal to the required contribution total. Total pension contributions were approximately \$4,032,000. Of the total pension contributions approximately \$3,908,000 was contributed to fund the Defined Benefit Plan and approximately \$124,000 was contributed to fund the Defined Contribution Plan.

The District's OPEB contributions for the year ended June 30, 2021 were equal to the required contribution total. Total OPEB contributions were approximately \$1,140,000. Of the total OPEB contributions approximately \$1,004,000 was contributed to fund the Defined Benefit Plan and approximately \$136,000 was contributed to fund the Defined Contribution Plan.

These amounts, for both pension and OPEB benefit, include contributions funded from State Revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate (100% for pension and 0% for OPEB).

**HASTINGS AREA SCHOOL SYSTEM
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

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

Pension Liabilities

The net pension liability was measured as of September 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2019 and rolled-forward using generally accepted actuarial procedures. The District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined.

<u>MPERS (Plan) Non-University Employers</u>	<u>September 30, 2020</u>	<u>September 30, 2019</u>
Total Pension Liability	\$ 85,290,583,799	\$ 83,442,507,212
Plan Fiduciary Net Position	\$ 50,939,496,006	\$ 50,325,869,388
Net Pension Liability	\$ 34,351,087,793	\$ 33,116,637,824
Proportionate Share	0.13735%	0.13702%
Net Pension Liability for the District	\$ 47,180,666	\$ 45,375,728

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

For the year ended June 30, 2021, the District recognized pension expense of \$6,638,305.

At June 30, 2021, the Reporting Unit reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in proportion and differences between employer contributions and proportionate share of contributions	\$ 71,106	\$ 514,363
Differences between expected and actual experience	720,882	100,700
Changes of assumptions	5,228,073	-
Net differences between projected and actual plan investment earnings	198,232	-
Reporting unit's contributions subsequent to the measurement date	<u>3,701,608</u>	<u>-</u>
	<u>\$ 9,919,901</u>	<u>\$ 615,063</u>

**HASTINGS AREA SCHOOL SYSTEM
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

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

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

\$3,701,608, reported as deferred outflows of resources related to pensions resulting from District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

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

<u>Year Ending September 30,</u>	<u>Amount</u>
2021	\$ 2,493,806
2022	1,779,886
2023	1,002,239
2024	327,299

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

OPEB Liabilities

The net OPEB liability was measured as of September 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation date of September 30, 2019 and rolled-forward using generally accepted actuarial procedures. The District's proportion of the net OPEB liability was based on a projection of its long-term share of contributions to the OPEB plan relative to the projected contributions of all participating reporting units, actuarially determined.

<u>MPSERS (Plan) Non-University Employers</u>	<u>September 30, 2020</u>	<u>September 30, 2019</u>
Total Other Postemployment Benefit Liability	\$ 13,206,903,534	\$ 13,925,860,688
Plan Fiduciary Net Position	\$ 7,849,636,555	\$ 6,748,112,668
Net Other Postemployment Benefit Liability	\$ 5,357,266,979	\$ 7,177,748,020
Proportionate Share	0.13745%	0.13804%
Net Other Postemployment Benefit Liability for the District	\$ 7,363,325	\$ 9,908,138

**HASTINGS AREA SCHOOL SYSTEM
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

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

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

For the year ended June 30, 2021, the District recognized OPEB benefit of \$223,822.

At June 30, 2021, the Reporting Unit 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
Changes in proportion and differences between employer contributions and proportionate share of contributions	\$ 99,139	\$ 299,230
Differences between expected and actual experience	-	5,486,365
Changes of assumptions	2,427,835	-
Net differences between projected and actual plan investment earnings	61,455	-
Reporting unit's contributions subsequent to the measurement date	914,446	-
	\$ 3,502,875	\$ 5,785,595

\$914,446, reported as deferred outflows of resources related to OPEB resulting from District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the subsequent fiscal year.

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 Ending September 30,	Amount
2021	\$ (890,991)
2022	(805,812)
2023	(638,686)
2024	(471,107)
2025	(390,570)

**HASTINGS AREA SCHOOL SYSTEM
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Actuarial Assumptions

Investment Rate of Return for Pension - 6.80% a year, compounded annually net of investment and administrative expenses for the MIP, Basic and Pension Plus groups and 6.00% a year, compounded annually net of investment and administrative expenses for Pension Plus 2 Plan.

Investment Rate of Return for OPEB - 6.95% a year, compounded annually net of investment and administrative expenses.

Salary Increases - The rate of pay increase used for individual members is 2.75% - 11.55%, including wage inflation of 2.75%.

Inflation - 3.0%.

Mortality Assumptions:

Retirees - RP-2014 Male and Female Healthy Annuitant Mortality Tables scaled by 82% for males and 78% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006.

Active - RP-2014 Male and Female Employee Annuitant Mortality Tables scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.

Disabled Retirees - RP-2014 Male and Female Disabled Annuitant Mortality Tables scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.

Experience Study - The annual actuarial valuation report of the System used for these statements is dated September 30, 2019. Assumption changes as a result of an experience study for the periods 2012 through 2017 have been adopted by the System for use in the determination of the total pension and OPEB liability beginning with the September 30, 2018 valuation.

The Long-Term Expected Rate of Return on Pension and Other Postemployment Benefit Plan Investments - The pension rate was 6.80% (MIP, Basic, and Pension Plus Plan) and 6.00% for Pension Plus 2 Plan, and the other postemployment benefit rate was 6.95%, net of investment and administrative expenses was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension and 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.

Cost of Living Pension Adjustments - 3.0% annual non-compounded for MIP members.

Healthcare Cost Trend Rate for Other Postemployment Benefit - 7.0% for year one and graded to 3.5% in year fifteen.

**HASTINGS AREA SCHOOL SYSTEM
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Actuarial Assumptions (continued)

Additional Assumptions for Other Postemployment Benefit Only - Applies to individuals hired before September 4, 2012:

Opt Out Assumption - 21% of eligible participants hired before July 1, 2008 and 30% of those hired after June 30, 2008 are assumed to opt out of the retiree health plan.

Survivor Coverage - 80% of male retirees and 67% of female retirees are assumed to have coverage 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.

The target asset allocation at September 30, 2020 and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Investment Category</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return*</u>
Domestic Equity Pools	25.0%	5.6%
International Equity Pools	15.0%	7.4%
Private Equity Pools	16.0%	9.3%
Real Estate and Infrastructure Pools	10.0%	4.9%
Fixed Income Pools	10.5%	0.5%
Absolute Return Pools	9.0%	3.2%
Real Return/Oppportunistic Pools	12.5%	6.6%
Short-Term Investment Pools	2.0%	-0.1%
	<u>100.0%</u>	

*Long-term rate of return are net of administrative expenses and 2.1% inflation.

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

Pension Discount Rate - A single discount rate of 6.80% was used to measure the total pension liability (6.00% for the Pension Plus 2 Plan). This discount rate was based on the expected rate of return on pension plan investments of 6.80% (6.00% for the Pension Plus 2 Plan). The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that contributions from school districts will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**HASTINGS AREA SCHOOL SYSTEM
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Actuarial Assumptions (continued)

OPEB Discount Rate - A single discount rate of 6.95% was used to measure the total OPEB liability. This discount rate was based on the long-term expected rate of return on OPEB plan investments of 6.95%. The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that school districts contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the Reporting Unit's proportionate share of the net pension liability calculated using a single discount rate of 6.80% (6.00% for the Pension Plus 2 Plan), as well as what the Reporting Unit'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 than the current rate:

	Pension		
	1% Decrease	Discount Rate	1% Increase
District's proportionate share of the net pension liability	\$ 61,067,369	\$ 47,180,666	\$ 35,671,685

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate - The following presents the Reporting Unit's proportionate share of the net OPEB liability calculated using a single discount rate of 6.95%, as well as what the Reporting Unit'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 than the current rate:

	Other Postemployment Benefit		
	1% Decrease	Discount Rate	1% Increase
District's proportionate share of the net other postemployment benefit liability	\$ 9,159,028	\$ 7,363,325	\$ 5,598,919

Sensitivity to the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates - The following presents the Reporting Unit's proportionate share of the net other postemployment benefit liability calculated using the healthcare cost trend rate of 7.5% (decreasing to 3.5%), as well as what the Reporting Unit's proportionate share of the net other postemployment benefit liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	Other Postemployment Benefit		
	Current		
	1% Trend Decrease	Healthcare Cost Trend Rates	1% Trend Increase
District's proportionate share of the net other postemployment benefit liability	\$ 5,531,363	\$ 7,363,325	\$ 9,446,956

**HASTINGS AREA SCHOOL SYSTEM
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Pension and OPEB Plan Fiduciary Net Position

Detailed information about the pension and OPEB's fiduciary net position is available in the separately issued Michigan Public School Employees' Retirement System 2020 Comprehensive Annual Financial Report.

Payable to the Pension and OPEB Plan - At year end the School District is current on all required pension and other postemployment benefit plan payments. Amounts accrued at year end for accounting purposes are separately stated in the financial statements as a liability titled accrued retirement. These amounts represent current payments for June paid in July, accruals for summer pay primarily for teachers, and the contributions due from State Revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL).

NOTE 9 - RISK MANAGEMENT

The District participates in a pool, the MASB-SEG Property and Casualty Pool with other school districts for boiler and machine, property, fleet, liability, in-land marine, data breach, terrorism and school violent acts, employee dishonesty, crime, and error and omissions. The pool is organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self-insurance pool. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The District has not been informed of any special assessments being required in any of the past three fiscal years.

The District also participates in a pool, the SEG Self-Insurer Workers' Disability Compensation Fund, with other school districts for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The District has not been informed of any special assessments being required in any of the past three fiscal years.

NOTE 10 - TRANSFERS

During the year the general fund transferred \$85,000 to the community center special revenue fund to cover operational costs. The general fund also transferred \$200,000 to the Capital Projects and Technology fund for future technology and capital improvement spending.

**HASTINGS AREA SCHOOL SYSTEM
NOTES TO FINANCIAL STATEMENTS**

NOTE 11 - TAX ABATEMENTS

The District is required to disclose significant tax abatements as required by GASB Statement 77 (*Tax Abatements*).

The District receives reduced property tax revenues as a result of Payments in Lieu of Taxes (PILOT) granted by two townships and one City. PILOT programs apply to multiple unit housing for citizens of low income and the elderly. The property taxes abated for the general fund, debt service fund, and sinking fund by municipality under these programs are as follows:

<u>Municipality</u>	<u>Taxes Abated</u>
Hasting Charter Township	\$ 29,651
City of Hastings	89,390
	\$ 119,041

The taxes abated for the general fund operating millage is considered by the State of Michigan when determining the District's Section 22 funding of the State School Aid Act.

There are no abatements made by the District.

NOTE 12 - CONTINGENT LIABILITIES

Amounts received or receivable from grant agencies are subject to audit and adjustments by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.

NOTE 13 - NEW ACCOUNTING STANDARD

For the year ended June 30, 2021, the District implemented the following new pronouncement: GASB Statement No. 84, *Fiduciary Activities*.

Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*, was issued by the GASB in January 2017 and is effective for the District's 2021 year-end. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities for all state and local governments. The focus on the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Districts with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position.

**HASTINGS AREA SCHOOL SYSTEM
NOTES TO FINANCIAL STATEMENTS**

NOTE 13 - NEW ACCOUNTING STANDARD (continued)

The restatement of the beginning year fund balances and net position is as follows:

	Fund Balances	
	Student/ School Activities Fund	Total Governmental Funds
Fund balances as of July 1, 2020, as previously stated	\$ -	\$ 6,724,443
Adoption of GASB Statement 84	561,762	561,762
Fund balance as of July 1, 2020, as restated	\$ 561,762	\$ 7,286,205
		Net Postion Governmental Activities
Net position as of July 1, 2020, as previously stated		\$ (25,591,842)
Adoption of GASB Statement 84		561,762
Net position as of July 1, 2020, as restated		\$ (25,030,080)

NOTE 14 - SUBSEQUENT EVENTS

On August 20, 2021, the District issued a State Aid Note totaling \$1,600,000 for the purpose of funding operating expenditures until the fiscal year 2022 State Aid payments begin. This short-term note will be paid off when the District accumulates sufficient State Aid revenues in the next fiscal year. Future anticipated State Aid and other local funds are expected to be sufficient to cover this commitment.

**HASTINGS AREA SCHOOL SYSTEM
NOTES TO FINANCIAL STATEMENTS**

NOTE 15 - UPCOMING ACCOUNTING PRONOUNCEMENTS

Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, was issued by the GASB in June 2017. The objective of this Statement is to increase the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use the underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The District is currently evaluating the impact this standard will have on the financial statements when adopted during the 2021-2022 fiscal year.

In May 2020, the GASB issued Statement No. 96, *Subscription-based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. The District is currently evaluating the impact this standard will have on the financial statements when adopted during the 2022-2023 fiscal year.

REQUIRED SUPPLEMENTARY INFORMATION

**HASTINGS AREA SCHOOL SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2021**

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES				
Local sources	\$ 3,601,208	\$ 3,929,119	\$ 3,997,322	\$ 68,203
State sources	18,862,436	21,291,467	21,499,280	207,813
Federal sources	434,430	1,875,308	1,734,942	(140,366)
Incoming transfers and other	285,500	278,200	278,683	483
TOTAL REVENUES	23,183,574	27,374,094	27,510,227	136,133
EXPENDITURES				
Current				
Instruction				
Basic programs	11,769,431	12,403,757	12,396,699	7,058
Added needs	3,735,909	3,866,554	3,790,378	76,176
Total instruction	15,505,340	16,270,311	16,187,077	83,234
Supporting services				
Pupil	601,519	616,418	602,173	14,245
Instructional staff	395,255	417,181	356,145	61,036
General administration	311,371	265,026	235,041	29,985
School administration	1,755,891	1,648,255	1,556,131	92,124
Business	579,600	556,754	513,738	43,016
Operation/maintenance	2,636,987	3,053,172	3,103,441	(50,269)
Pupil transportation	982,817	1,055,707	1,019,112	36,595
Central services	504,835	895,467	875,242	20,225
Athletics and other	489,261	1,005,283	991,890	13,393
Total supporting services	8,257,536	9,513,263	9,252,913	260,350
Community services	12,414	26,756	20,807	5,949
Debt Service	396,165	396,166	432,340	(36,174)
TOTAL EXPENDITURES	24,171,455	26,206,496	25,893,137	313,359
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(987,881)	1,167,598	1,617,090	449,492
OTHER FINANCING SOURCES (USES)				
Transfers out	(200,000)	(375,000)	(285,000)	90,000
NET CHANGE IN FUND BALANCE	\$ (1,187,881)	\$ 792,598	1,332,090	\$ 539,492
FUND BALANCE				
Beginning of year			2,458,886	
End of year			\$ 3,790,976	

**HASTINGS AREA SCHOOL SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE REPORTING UNIT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT PLAN
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED AS OF 9/30 OF EACH FISCAL YEAR)**

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of net pension liability (%)	0.13735%	0.13702%	0.13808%	0.14109%	0.14193%	0.13817%	0.13440%
District's proportionate share of net pension liability	\$ 47,180,666	\$ 45,375,728	\$ 41,510,705	\$ 36,563,482	\$ 35,410,950	\$ 33,747,925	\$ 29,603,552
District's covered employee payroll	\$ 12,242,861	\$ 12,130,901	\$ 11,661,401	\$ 11,746,588	\$ 12,156,137	\$ 11,559,272	\$ 11,300,874
District's proportionate share of net pension liability as a percentage of its covered employee payroll	385.37%	374.05%	355.97%	311.27%	291.30%	291.96%	261.96%
Plan fiduciary net position as a percentage of total pension liability (Non-university employers)	59.72%	60.31%	62.36%	64.21%	63.27%	63.17%	66.20%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the District presents information for those years for which information is available.

**HASTINGS AREA SCHOOL SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE REPORTING UNIT'S PENSION CONTRIBUTIONS
MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT PLAN
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED AS OF 6/30 OF EACH FISCAL YEAR)**

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contributions	\$ 3,908,389	\$ 3,721,632	\$ 3,583,155	\$ 3,825,737	\$ 3,562,534	\$ 3,074,986	\$ 2,512,793
Contributions in relation to statutorily required contributions	<u>3,908,389</u>	<u>3,721,632</u>	<u>3,583,155</u>	<u>3,825,737</u>	<u>3,562,534</u>	<u>3,074,986</u>	<u>2,512,793</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	11,982,504	12,367,231	\$ 11,960,154	\$ 11,640,817	\$ 11,736,465	\$ 11,703,848	\$ 11,417,916
Contributions as a percentage of covered employee payroll	32.62%	30.09%	29.96%	32.86%	30.35%	26.27%	22.01%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the District presents information for those years for which information is available.

**HASTINGS AREA SCHOOL SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE REPORTING UNIT'S
PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT PLAN
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED AS OF 9/30 OF EACH FISCAL YEAR)**

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
District's proportion of net OPEB liability (%)	0.13745%	0.13804%	0.13656%	0.14146%
District's proportionate share of net OPEB liability	\$ 7,363,325	\$ 9,908,138	\$ 10,855,403	\$ 12,526,666
District's covered employee payroll	\$ 12,242,861	\$ 12,130,901	\$ 11,661,401	\$ 11,746,588
District's proportionate share of net OPEB liability as a percentage of its covered employee payroll	60.14%	81.68%	93.09%	106.64%
Plan fiduciary net position as a percentage of total OPEB liability	59.44%	48.46%	42.95%	36.39%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the District presents information for those years for which information is available.

**HASTINGS AREA SCHOOL SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE REPORTING UNIT'S OPEB CONTRIBUTIONS
MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT PLAN
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED AS OF 6/30 OF EACH FISCAL YEAR)**

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Statutorily required contributions	\$ 1,003,723	\$ 1,037,483	\$ 988,127	\$ 807,204
Contributions in relation to statutorily required contributions	<u>1,003,723</u>	<u>1,037,483</u>	<u>988,127</u>	<u>807,204</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 11,982,504	\$ 12,367,231	\$ 11,960,154	\$ 11,640,817
Contributions as a percentage of covered employee payroll	8.38%	8.39%	8.26%	6.93%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the District presents information for those years for which information is available.

**HASTINGS AREA SCHOOL SYSTEM
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2021**

NOTE 1 - PENSION INFORMATION

Benefit Changes - there were no changes of benefit terms in 2020.

Changes of Assumptions - there were no changes of assumptions in 2020.

NOTE 2 - OPEB INFORMATION

Benefit Changes - there were no changes of benefit terms in 2020.

Changes of Assumptions - the assumption changes for 2020 were:

Healthcare cost trend rate increased to 7.00% Year 1 graded to 3.50% Year 15 from 7.50% Year 1 graded to 3.50% Year 12.

ADDITIONAL SUPPLEMENTARY INFORMATION

**HASTINGS AREA SCHOOL SYSTEM
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND TYPES
JUNE 30, 2021**

	Special Revenue			Capital Project		Total
	Food Service	Community Center	Student/School Activities	Sinking Fund	Capital Projects & Technology	
ASSETS						
Cash and cash equivalents	\$ 59,625	\$ 17,636	\$ 428,440	\$ 646,378	\$ 200,000	\$ 1,352,079
Receivables						
Accounts	-	1,900	-	-	-	1,900
Intergovernmental	14,934	4,151	-	-	-	19,085
Inventories	18,333	-	-	-	-	18,333
TOTAL ASSETS	\$ 92,892	\$ 23,687	\$ 428,440	\$ 646,378	\$ 200,000	\$ 1,391,397
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Accounts payable	\$ 395	\$ 19,767	\$ -	\$ 16,433	\$ -	\$ 36,595
Accrued salaries and related items	3,231	2,710	-	-	-	5,941
Accrued retirement	826	-	-	-	-	826
Unearned revenue	18,447	-	-	-	-	18,447
Due to other funds	-	-	230	-	-	230
TOTAL LIABILITIES	22,899	22,477	230	16,433	-	62,039
FUND BALANCES						
Nonspendable						
Inventories	18,333	-	-	-	-	18,333
Restricted for:						
Capital projects	-	-	-	629,945	-	629,945
Community service	-	1,210	-	-	-	1,210
Food service	51,660	-	-	-	-	51,660
Committed						
Student/school activity	-	-	428,210	-	-	428,210
Assigned for:						
Capital projects	-	-	-	-	200,000	200,000
TOTAL FUND BALANCES	69,993	1,210	428,210	629,945	200,000	1,329,358
TOTAL LIABILITIES AND FUND BALANCES	\$ 92,892	\$ 23,687	\$ 428,440	\$ 646,378	\$ 200,000	\$ 1,391,397

**HASTINGS AREA SCHOOL SYSTEM
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUND TYPES
YEAR ENDED JUNE 30, 2021**

	Special Revenue			Capital Project		Total
	Food Service	Community Center	Student/ School Activities	Sinking Fund	Capital Projects & Technology	
REVENUES						
Local sources	\$ 90,729	\$ 405,556	\$ 146,549	\$ 622,709	\$ -	\$ 1,265,543
State sources	58,668	-	-	-	-	58,668
Federal sources	846,351	107,277	-	-	-	953,628
TOTAL REVENUES	995,748	512,833	146,549	622,709	-	2,277,839
EXPENDITURES						
Current						
Community service	-	596,751	-	-	-	596,751
Food service	1,014,084	-	-	-	-	1,014,084
Student/school activities	-	-	280,101	-	-	280,101
Capital outlay	-	-	-	104,399	-	104,399
TOTAL EXPENDITURES	1,014,084	596,751	280,101	104,399	-	1,995,335
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(18,336)	(83,918)	(133,552)	518,310	-	282,504
OTHER FINANCING SOURCES (USES)						
Transfers in	-	85,000	-	-	200,000	285,000
NET CHANGE IN FUND BALANCES	(18,336)	1,082	(133,552)	518,310	200,000	367,504
FUND BALANCES						
Beginning of year, as restated	88,329	128	561,762	111,635	-	761,854
End of year	<u>\$ 69,993</u>	<u>\$ 1,210</u>	<u>\$ 428,210</u>	<u>\$ 629,945</u>	<u>\$ 200,000</u>	<u>\$ 1,329,358</u>

**HASTINGS AREA SCHOOL SYSTEM
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2021**

Federal Grantor/Pass-through Grantor/ Program Title	CFDA Number	Pass- through Grantor's Number	Approved Grant Award Amount	Accrued (unearned) Revenue 7/1/2020	(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts	Accrued (unearned) Revenue 6/30/2021
<u>U.S. Department of Agriculture</u>								
Passed through Michigan Department of Education								
Child Nutrition Cluster								
Non-cash assistance (donated foods)								
National School Lunch Program	10.555	N/A	\$ 66,276	\$ -	\$ -	\$ 66,276	\$ 66,276	\$ -
National School Lunch Program - Bonus			364	-	-	364	364	-
Total non-cash assistance			<u>66,640</u>	<u>-</u>	<u>-</u>	<u>66,640</u>	<u>66,640</u>	<u>-</u>
Cash Assistance								
COVID-19 - National School Lunch Program	10.555	200902	228,780	8,087	-	-	8,087	-
Total CFDA #10.555			<u>228,780</u>	<u>8,087</u>	<u>-</u>	<u>-</u>	<u>8,087</u>	<u>-</u>
COVID-19 Summer Food Service Program for Children	10.559	210904	614,268	-	-	614,268	607,325	6,943
COVID-19 Summer Food Service Program for Children		200900	218,205	52,762	-	165,443	218,205	-
Total CFDA #10.559			<u>832,473</u>	<u>52,762</u>	<u>-</u>	<u>779,711</u>	<u>825,530</u>	<u>6,943</u>
Total cash assistance			<u>1,061,253</u>	<u>60,849</u>	<u>-</u>	<u>779,711</u>	<u>833,617</u>	<u>6,943</u>
Total Child Nutrition Cluster			<u>1,127,893</u>	<u>60,849</u>	<u>-</u>	<u>846,351</u>	<u>900,257</u>	<u>6,943</u>
<u>U.S. Department of Education</u>								
Passed through Michigan Department of Education								
Title I Grants to Local Educational Agencies	84.010	211530-2021	358,365	-	-	295,537	273,659	21,878
Title I Grants to Local Educational Agencies		201530-1920	386,752	34,787	324,004	-	34,787	-
Total CFDA #84.010			<u>745,117</u>	<u>34,787</u>	<u>324,004</u>	<u>295,537</u>	<u>308,446</u>	<u>21,878</u>
Supporting Effective Instruction State Grants	84.367	210520-2021	120,547	-	-	49,163	45,728	3,435
Supporting Effective Instruction State Grants		200520-1920	135,955	(1,957)	92,116	-	(1,957)	-
Total CFDA #84.367			<u>256,502</u>	<u>(1,957)</u>	<u>92,116</u>	<u>49,163</u>	<u>43,771</u>	<u>3,435</u>
Student Support and Academic Enrichment	84.424	210750-2021	38,324	-	-	20,667	21,252	(585)
Student Support and Academic Enrichment		200750-1920	27,386	4,754	13,756	-	4,754	-
Total CFDA #84.424			<u>65,710</u>	<u>4,754</u>	<u>13,756</u>	<u>20,667</u>	<u>26,006</u>	<u>(585)</u>

The accompanying notes are an integral part of this schedule.

HASTINGS AREA SCHOOL SYSTEM
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (continued)
YEAR ENDED JUNE 30, 2021

Federal Grantor/Pass-through Grantor/ Program Title	CFDA Number	Pass- through Grantor's Number	Approved Grant Award Amount	Accrued (unearned) Revenue 7/1/2020	(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts	Accrued (unearned) Revenue 6/30/2021
<u>U.S. Department of Education (continued)</u>								
Passed through Michigan Department of Education (continued)								
Education Stabilization Fund								
COVID-19 Elementary and Secondary School Emergency Relief Fund (ESSER I) - Formula	84.425D	203710-1920	\$ 278,922	\$ -	\$ -	\$ 278,922	\$ 278,922	\$ -
Total Passed through Michigan Department of Education			<u>1,346,251</u>	<u>37,584</u>	<u>429,876</u>	<u>644,289</u>	<u>657,145</u>	<u>24,728</u>
Passed through Barry Intermediate School District								
Career and Technical Education - Basic Grants to States	84.048	N/A	60,837	-	-	60,837	60,837	-
Total U.S. Department of Education			<u>1,407,088</u>	<u>37,584</u>	<u>429,876</u>	<u>705,126</u>	<u>717,982</u>	<u>24,728</u>
<u>U.S. Department of Health and Human Services</u>								
Passed through Barry Intermediat School District								
Medicaid Cluster Medical Assistance Program	93.778	N/A	14,561	-	-	14,561	14,561	-
<u>U.S. Department of Treasury</u>								
Passed through Michigan Department of Education								
COVID-19 Coronavirus Relief Funds	21.019	11(p)	898,394	-	-	898,394	898,394	-
COVID-19 Coronavirus Relief Funds		103(2)	31,623	-	-	31,623	31,623	-
Total Passed through Michigan Department of Education			<u>930,017</u>	<u>-</u>	<u>-</u>	<u>930,017</u>	<u>930,017</u>	<u>-</u>
Passed through MAISA/Copper County ISD								
COVID-19 Coronavirus Relief Funds - MiConnect Connectivity Funding	21.019	N/A	32,750	-	-	32,750	32,750	-
Total CFDA #21.019 and U.S. Department of Treasury			<u>962,767</u>	<u>-</u>	<u>-</u>	<u>962,767</u>	<u>962,767</u>	<u>-</u>
TOTAL FEDERAL AWARDS			<u>\$ 3,512,309</u>	<u>\$ 98,433</u>	<u>\$ 429,876</u>	<u>\$ 2,528,805</u>	<u>\$ 2,595,567</u>	<u>\$ 31,671</u>

The accompanying notes are an integral part of this schedule.

**HASTINGS AREA SCHOOL SYSTEM
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2021**

NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of Hastings Area School System under programs of the federal government for the year ended June 30, 2021. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) 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 Hastings Area School System, it is not intended to and does not present the financial position or changes in net position of Hastings Area School System.

The District qualifies for low-risk auditee status. Management has utilized the cash management system (CMS) Grant Auditor Report in preparing the schedule of expenditures of federal awards. The District does not pass through federal funds.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts (if any) 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. Hastings Area School System has elected to not use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE 3 - RECONCILIATION WITH AUDITED FINANCIAL STATEMENT

Federal expenditures are reported as revenue in the following funds in the financial statements:

General fund	\$ 1,734,942
Other nonmajor governmental funds	<u>953,628</u>
Total federal revenue in the fund financial statements	2,688,570
Less: Federal assistance funding not subject to single audit act	<u>(159,765)</u>
Expenditures per schedule of expenditures of federal awards	<u><u>\$ 2,528,805</u></u>

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

To the Board of Education
Hastings Area School System

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hastings Area School System as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Hastings Area School System's basic financial statements and have issued our report thereon dated October 13, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Hastings Area School System's internal control over financial reporting (internal control) to determine the 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 Hastings Area School System's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hastings Area School System'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hastings Area School System'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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Maney Costeiran PC

October 13, 2021

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Education
Hastings Area School System

Report on Compliance for Each Major Federal Program

We have audited Hastings Area School System's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Hastings Area School System's major federal programs for the year ended June 30, 2021. Hastings Area School System's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

We believe that our audit provides a reasonable basis for our unmodified opinion on compliance for major federal programs. However, our audit does not provide a legal determination of Hastings Area School System's compliance.

Opinion on Each Major Federal Program

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

Report on Internal Control over Compliance

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

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

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

Purpose of this Report

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

Maney Costeiran PC

October 13, 2021

**HASTINGS AREA SCHOOL SYSTEM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2021**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued based on financial statements prepared in accordance with generally accepted accounting principles:

Unmodified

Internal control over financial reporting:

➤ Material weakness(es) identified ? _____ Yes X None

➤ Significant deficiency(ies) identified that are not considered to be material weakness(es) ? _____ Yes X None reported

Noncompliance material to financial statements noted? _____ Yes X None

Federal Awards

Internal control over major programs:

➤ Material weakness(es) identified: _____ Yes X None

➤ Significant deficiency(ies) identified that are not considered to be material weakness(es) ? _____ Yes X None reported

Type of auditor's report issued on compliance for major programs:

Unmodified

Any audit findings that are required to be reported in accordance with Title 2 CFR Section 200.516(a)? _____ Yes X No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
21.019	Coronavirus Relief Funds

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

\$750,000

Auditee qualified as low-risk auditee? X Yes _____ No

Section II - Financial Statement Findings

None noted

Section III - Federal Award Findings and Question Costs

None noted

**HASTINGS AREA SCHOOL SYSTEM
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2021**

There were no audit findings for the year ended June 30, 2020.

**HASTINGS AREA SCHOOL SYSTEM
2016 BOND - SCHOOL BUILDING AND SITE BONDS
SUMMARY REPORT AND TRANSMITTAL**

In accordance with the requirements of the Bulletin for School District Audits of Bonded Construction Fund and Sinking Funds in Michigan, this report transmits a summary of the activity of the 2016 Bond issue for the entire period. The activity period was February 3, 2016, the issue date through June 30, 2021, the date of the certificate of substantial completion extension approval.

The 2016 Capital Project activity was audited annually by the school district's independent auditor. The school district's annual financial reports which include the results of each audit, the annual Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance for the 2016 Building and Site Capital Project Fund are attached to this transmittal.

The activity for the entire period is summarized on the following schedules:

**HASTINGS AREA SCHOOL SYSTEM
School Building and Site Bond, 2016 Capital Project Fund**

	<u>2015-2016</u>	<u>2016-2017</u>	<u>2017-2018</u>	<u>2018-2019</u>	<u>2019-2020</u>	<u>2020-2021</u>
ASSETS						
Cash and cash equivalents	\$ 12,863,390	\$ 6,319,683	\$ 10,966,077	\$ -	\$ -	\$ -
Investments	30,767,335	26,859,155	3,948,643	5,327,982	3,535,525	538,756
Receivables:						
Accounts receivable	-	-	-	-	-	-
Due from other funds	4,935	-	-	-	-	-
Interest receivable	-	-	-	-	-	-
TOTAL ASSETS	<u>\$ 43,635,660</u>	<u>\$ 33,178,838</u>	<u>\$ 14,914,720</u>	<u>\$ 5,327,982</u>	<u>\$ 3,535,525</u>	<u>\$ 538,756</u>
LIABILITIES AND FUND BALANCE						
Liabilities						
Accounts payable	\$ 862,224	\$ 1,749,716	\$ 1,723,011	\$ 595,632	\$ 837,150	\$ 52,385
Due to other funds	-	-	1,600	1,600	-	-
Total liabilities	<u>862,224</u>	<u>1,749,716</u>	<u>1,724,611</u>	<u>597,232</u>	<u>837,150</u>	<u>52,385</u>
Fund balance						
Restricted for capital projects	<u>42,773,436</u>	<u>31,429,122</u>	<u>13,190,109</u>	<u>4,730,750</u>	<u>2,698,375</u>	<u>486,371</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 43,635,660</u>	<u>\$ 33,178,838</u>	<u>\$ 14,914,720</u>	<u>\$ 5,327,982</u>	<u>\$ 3,535,525</u>	<u>\$ 538,756</u>

	<u>2015-2016</u>	<u>2016-2017</u>	<u>2017-2018</u>	<u>2018-2019</u>	<u>2019-2020</u>	<u>2020-2021</u>	<u>Total</u>
Revenue							
Local sources	\$ 122,421	\$ 169,269	\$ 340,327	\$ 257,710	\$ 111,031	138,145	\$ 1,138,903
Federal sources	-	192,619	-	-	-	-	192,619
Total revenues	<u>122,421</u>	<u>361,888</u>	<u>340,327</u>	<u>257,710</u>	<u>111,031</u>	<u>138,145</u>	<u>1,331,522</u>
Expenditures							
Capital outlay	1,776,517	11,706,202	18,579,340	8,717,069	2,143,406	2,350,149	45,272,683
Debt service	316,696	-	-	-	-	-	316,696
Total expenditures	<u>2,093,213</u>	<u>11,706,202</u>	<u>18,579,340</u>	<u>8,717,069</u>	<u>2,143,406</u>	<u>2,350,149</u>	<u>45,589,379</u>
Excess of revenues over over (under) expenditures	<u>(1,970,792)</u>	<u>(11,344,314)</u>	<u>(18,239,013)</u>	<u>(8,459,359)</u>	<u>(2,032,375)</u>	<u>(2,212,004)</u>	<u>(44,257,857)</u>
Other financing sources							
Bond proceeds	38,483,060	-	-	-	-	-	38,483,060
Bond premium	6,261,168	-	-	-	-	-	6,261,168
Transfers from other funds	-	-	-	-	-	-	-
Transfers to other funds	-	-	-	-	-	-	-
Total other financing sources	<u>44,744,228</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>44,744,228</u>
Net change in fund balance	42,773,436	(11,344,314)	(18,239,013)	(8,459,359)	(2,032,375)	(2,212,004)	486,371
Fund balance, beginning of period	-	42,773,436	31,429,122	13,190,109	4,730,750	2,698,375	-
Fund balance, end of period	<u>\$42,773,436</u>	<u>\$31,429,122</u>	<u>\$13,190,109</u>	<u>\$ 4,730,750</u>	<u>\$ 2,698,375</u>	<u>\$ 486,371</u>	<u>\$ 486,371</u>

The above financial information is compiled from the District's annual audited financial statements. The 2016 capital project fund was included in the scope of the audit as required by the above audit guide. In accordance with the requirements of the above audit guide, the annual financial report included disclosures relating to compliance findings or reportable conditions, when required.

Of the original bond issuance of \$39,710,000, an amount of \$1,226,940 was related to capitalized interest and was recorded in the District's debt service fund for use on debt payments as required by the bond documents. The remaining \$38,483,060 was accounted for in the capital project fund as noted above.

The following items were disclosed in the annual reports.

NONE

TRANSMITTAL CERTIFICATION

This is to certify that to the best of my knowledge and belief, the school district has; engaged an independent auditor to perform annual audits of the above bond fund in accordance with the Bulletin for School District Audits of Bonded Construction Fund and of Sinking Funds in Michigan; the auditor has completed such audits; and the data included on this transmittal is true and correct.

Signed,

_____ Signature and date

_____ Name (print)

_____ Title

_____ School District

Checklist for the minimum documentation to be submitted with the Transmittal (from annual audits for all fiscal years involved in the construction period).

	Year 2016 Page No.	Year 2017 Page No.	Year 2018 Page No.	Year 2019 Page No.	Year 2020 Page No.	Year 2021 Page No.
Opinion on financial statements	i	ii	i	2	2	2
Bond Compliance footnote	28	27	31	18-19	18-19	17-18
Bond Balance Sheet	3	3	3	13	13	13
Bond Revenue and Expenditure Statement	5	5	5	15	15	15
Compliance letter (for financial statements)	9-10*	9-10*	9-10*	59-60	60-61	60-61
Schedule of Findings and Questioned Costs - Section II (if findings exist)	N/A	N/A	N/A	N/A	N/A	N/A

* Included in separate single audit report.

October 13, 2021

To the Board of Education
Hastings Area School System

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hastings Area School System for the year ended June 30, 2021. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and OMB's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information to you in our letter dated May 20, 2021. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Hastings Area School System are described in Note 1 to the financial statements. During fiscal year 2021, the District implemented Governmental Accounting Standard No. 84, *Fiduciary Activities*. The application of existing policies was not changed during fiscal year 2021. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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

Estimates have been used to calculate the net pension liability and the net other postemployment benefit liability.

We evaluated the key factors and assumptions used to develop the balance of the net pension liability and net other postemployment benefit liability in determining that they are reasonable in relation to the financial statements taken as a whole.

Management’s estimate in calculating the liability for employee compensated absences.

We evaluated the key factors and assumptions used to develop the balance of employee compensated absences in determining that it is reasonable in relation to the financial statements taken as a whole.

Management’s determination of the estimated life span of the capital assets.

We evaluated the key factors and assumptions used by management to develop the estimated life span of the capital assets in determining that it is reasonable in relation to the financial statements taken as a whole. In addition, certain amounts included in capital assets have been estimated based on an outside appraisal company.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. We did not identify any sensitive disclosures.

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 13, 2021.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

We applied certain limited procedures to the required supplementary information (RSI) which are required and supplement the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

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

A separate management letter was not issued.

Restriction on Use

This information is intended solely for the use of the Board of Education and management of Hastings Area School System and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Maney Costeiran PC