

Holton Public Schools

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended June 30, 2022



Holton Public Schools

TABLE OF CONTENTS

Independent Auditor’s Report..... 1

Management’s Discussion and Analysis..... 4

Basic Financial Statements

 District-wide Financial Statements

 Statement of Net Position..... 13

 Statement of Activities 14

 Fund Financial Statements

 Governmental Funds

 Balance Sheet..... 15

 Reconciliation of the Governmental Funds Balance
 Sheet to the Statement of Net Position..... 16

 Statement of Revenues, Expenditures and Changes
 in Fund Balances..... 17

 Reconciliation of the Governmental Funds Statement
 of Revenues, Expenditures and Changes in Fund
 Balances to the Statement of Activities 18

 Notes to Financial Statements 19

Required Supplementary Information

 Budgetary Comparison Schedule—General Fund..... 43

 Schedule of the School District’s Proportionate Share of the Net Pension Liability 44

 Schedule of the School District’s Pension Contributions..... 45

 Schedule of the School District’s Proportionate Share of the Net OPEB Liability..... 46

 Schedule of the School District’s OPEB Contributions 47

 Notes to Required Supplementary Information. 48

INDEPENDENT AUDITOR'S REPORT

Board of Education
Holton Public Schools
Holton, Michigan

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Holton Public Schools', as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Holton Public Schools' basic financial statements as listed in the table of contents.

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

Basis for Opinions

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

Change in Accounting Principle

As discussed in Note M to the financial statements, in the year ended June 30, 2022 the District adopted new accounting guidance, GASB Statement No. 87, Leases. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

Responsibilities of Management for the Financial Statements—Continued

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

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

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

Board of Education
Holton Public Schools
Page 3

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards* we have also issued our report dated September 28, 2022, on our consideration of the Holton Public Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Holton Public Schools' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Holton Public Schools' internal control over financial reporting and compliance.



Hart, Michigan
September 28, 2022



Management's Discussion and Analysis 2021-2022

This section of Holton Public School's Annual Financial Report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2022. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to these statements. These statements are organized so the reader can understand Holton Public Schools financially as a whole. The district-wide financial statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a long-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds, the General Fund, the School Improvement Sinking Fund, 2018 Capital Projects Fund, and all other funds presented in one column as nonmajor funds.

Overview of the Financial Statements

This annual report consists of four parts: (1) management's discussion and analysis (this section), (2) the auditor's opinion, (3) the basic financial statements, and (4) the required supplementary information. The financial statements include notes that explain some of the information in the statements by providing detailed data. These statements are followed by a section of required supplementary information that further explains and supports the financial statements, utilizing a comparison to the District's budget for the year. Additionally, the basic financial statements also include two kinds of statements that present different views of the District.

Reporting the School District as a Whole – District-Wide Financial Statements

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The Statement of Net Position and the Statement of Activities, which appear first in the School District's financial statements, report information about the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.



Management's Discussion and Analysis 2021-2022

These two statements report the School District's net position – the difference between assets, deferred inflows and outflows, and liabilities, as reported in the Statement of Net Position – as one way to measure the School District's financial health or financial position. The footnotes to the financial statements contain the details.

Over time, increases or decreases in the School District's net position – as reported in the Statement of Activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The Statement of Net Position and Statement of Activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, support services, athletics, and food services. Property taxes, unrestricted State Aid (foundation allowance revenue), and State and federal grants finance most of these activities.

Reporting the School District's Most Significant Funds – Fund Financial Statements

The School District's fund financial statements provide detailed information about the most significant funds – not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes other funds to help it control and manage money for particular purposes (Food Services, Student/School Activities, Security and Technology Millage, and Capital Projects) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects).

Governmental funds – All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in a reconciliation.



Management’s Discussion and Analysis 2021-2022

The School District as a Whole

Recall that the Statement of Net Position provides the perspective of the School District as a whole. The net position of the District at June 30, 2022 amounted to a deficit of approximately \$10.8 million. Table 1 shows a condensed breakdown of the net assets.

**Table 1
Condensed Statement of Net Position**

	Governmental Activities <u>June 30, 2022</u>	Governmental Activities <u>June 30, 2021</u>
Current assets	\$ 4,641,382	\$ 5,560,756
Restricted assets	1,360,000	1,246,667
Capital assets, net	<u>17,580,615</u>	<u>17,811,673</u>
Total assets	23,581,997	24,619,096
 Deferred Outflows	 <u>4,078,131</u>	 <u>4,928,986</u>
Total assets and deferred outflows	27,660,128	29,548,082
 Current liabilities	 3,572,717	 3,841,278
Non-current liabilities	27,939,479	35,184,611
Deferred inflows	<u>6,903,788</u>	<u>2,105,262</u>
Total liabilities and deferred inflows	38,415,984	41,131,151
 Net position		
Net investment in capital assets	2,424,277	1,683,947
Restricted	1,759,479	2,154,317
Unrestricted	<u>(14,939,612)</u>	<u>(15,421,333)</u>
Total net position	<u>\$(10,755,856)</u>	<u>\$(11,583,069)</u>

The largest portion of the District’s net position reflects investment in capital assets (e.g., land, buildings and improvements, vehicles, furniture and equipment) less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District’s investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay the debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.



Management’s Discussion and Analysis 2021-2022

The major changes affecting the Condensed Statement of Net Position include the decrease of current assets due to the capital project expenditures related to the 2018 Bond, an increase in restricted assets due to required set-aside principal installment for the QZAB bond payment, a decrease of capital assets due to depreciation in excess of capital projects funded by the 2018 Bond proceeds, an increase of deferred inflows and a decrease related to pension and postemployment benefit liabilities, and a decrease in liabilities due to scheduled bond payments. See the notes to the financial statements for additional information on the reporting of pension assets, liabilities and expense.

The results of this year’s operations for the School District as a whole are reported in the Statement of Activities (Table 2), which shows the changes in net position for fiscal year 2022.

**Table 2
Statement of Activities**

	Governmental Activities <u>June 30, 2022</u>	Governmental Activities <u>June 30, 2021</u>
Revenues		
Program Revenues		
Charges for services	\$ 211,608	\$ 79,271
Operating grants and contributions	4,662,280	4,642,618
General revenues		
Property taxes	2,055,994	1,998,168
Unrestricted grants and contributions	6,123,600	5,880,232
Other	<u>53,042</u>	<u>42,992</u>
Total revenues	<u>13,106,524</u>	<u>12,643,281</u>
Expenses		
Instruction	5,986,137	6,231,305
Support services	4,291,778	4,257,279
Community services	57,436	-
Food services	766,036	892,113
Student/school activities	172,923	88,516
Athletics	478,255	433,937
Interest on long-term debt	<u>526,746</u>	<u>557,987</u>
Total expenses	<u>12,279,311</u>	<u>12,461,137</u>
Increase (decrease) in net position	827,213	182,144
Net position at beginning of year	<u>(11,583,069)</u>	<u>(11,765,213)</u>
Net position at end of year	<u>\$ (10,755,856)</u>	<u>\$ (11,583,069)</u>

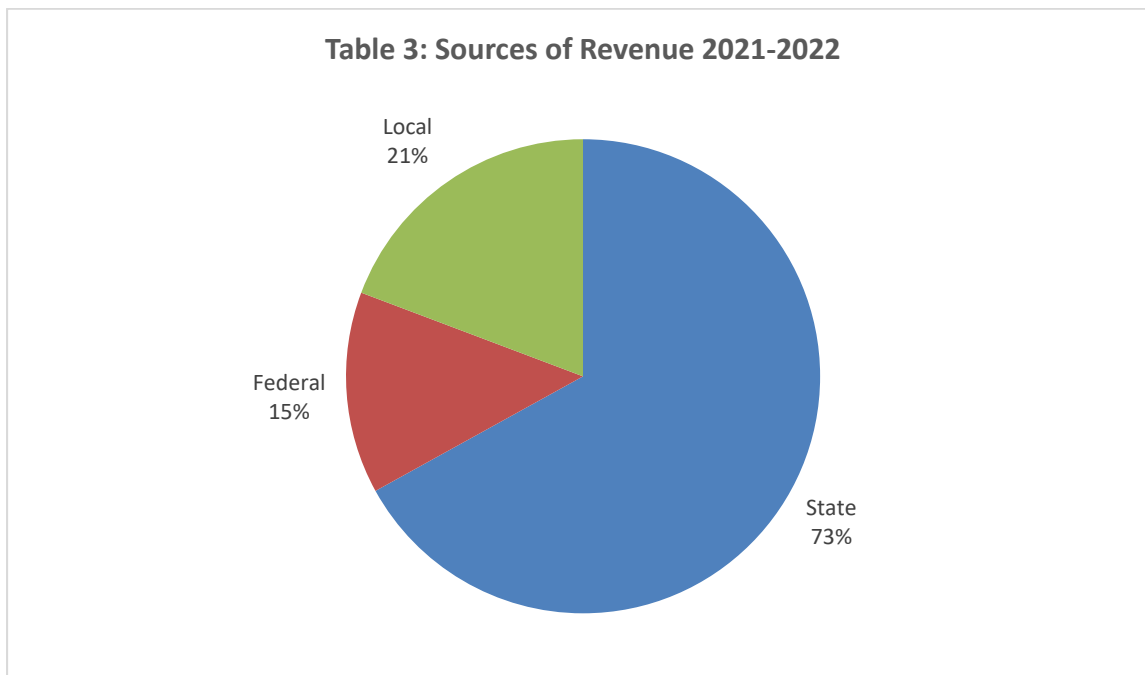


Management’s Discussion and Analysis 2021-2022

The net position of the District increased by \$827,213 during the 2021-2022 fiscal year. The cost of the District’s governmental activities for the year was \$12.28 million. Those who benefited from food service, athletic programs, student and school activities, instructional, and support services, paid service charges of \$212 thousand. Operating grants and contributions of \$4.7 million were for programs paid for by other governments and organizations. The other resources were provided with property tax, state pupil foundation allowance (state aid), investment earnings and other miscellaneous revenues.

The overall change in the Statement of Activities was due to the receipt of COVID-19 related operating grants. The district received \$1,250,000 in 2022 and \$725,000 in 2021 in order to respond to COVID-19.

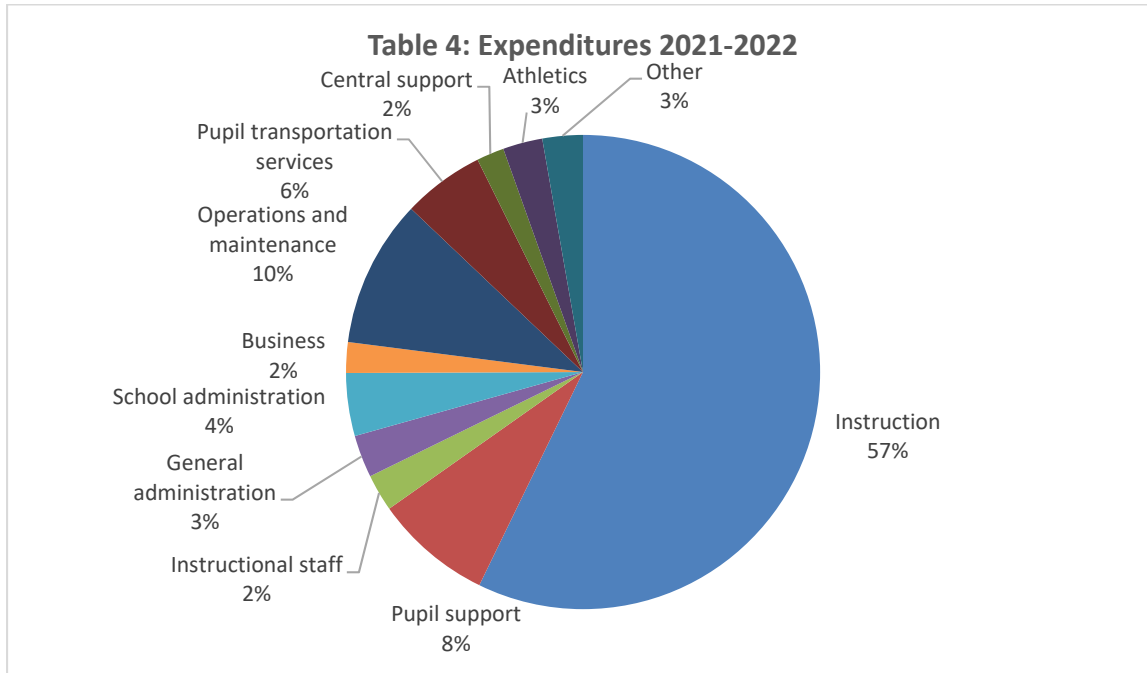
A substantial portion (73%) of the District’s revenues is received from State sources. This means that the financial stability of the District rests primarily with the economic health of the State of Michigan. Table 3 depicts the breakdown of the sources of General Fund Revenue for the District.



Since property taxes for operations and unrestricted State Aid constitute the vast majority of district operating revenue sources, the Board of Education and Administration must annually evaluate the needs of the School District and balance those needs with State-prescribed available unrestricted resources.

Management’s Discussion and Analysis 2021-2022

Table 4 depicts the allocation of how General Fund resources are spent. 67% of the District’s General Fund resources are spent on instruction, pupil support services, and instructional staff support. Another 11% is spent on administrative and business services necessary to efficiently operate the District, while 16% is spent for transportation and maintenance, including utilities and custodial services. The final 6% is spent on athletics and transfers to other funds.





Management's Discussion and Analysis 2021-2022

Financial Analysis of the District's Funds

The financial performance of the District as a whole is reflected in its governmental funds as well. The General Fund equity decreased by \$123,571 during the 2021-2022 fiscal year, resulting in fund equity of \$1,450,105 at year end.

Factors Impacting Operations

Student Enrollment – The blended student count decreased by 25 students.

Foundation allowance - The foundation allowance increased \$589 from \$8,111 in 2020-2021 to \$8,700 in 2021-2022.

General Fund Budgetary Highlights

Over the course of the year, the School District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was adopted June 2022. (A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in the required supplementary information section of these financial statements).

There were no significant variances between the final budget amounts and actual amounts.

Original vs. Amended Budget

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year. Revisions are made during the year in order to deal with unexpected changes in revenues and expenditures. The following analysis describes the reasons for changes in the budget during the year.

Revenues – There was about a \$667,000 net change (increase) in the total General Fund revenue budget from the beginning to the end of the year. The significant changes in funding sources were as follows:

- The *local source* revenue budget increased \$140,000 due to an increase in property tax collections of \$6,000 due to changes in property valuations, an increase in Act 18 collections of \$16,000, an increase for GSRP transportation of \$21,000, \$20,000 in miscellaneous revenues, and \$7,000 from athletic gate receipts. The budget also increased \$70,000 to account for the proceeds from the sale of 2 fiber optics lines.
- The *state source* revenue budget increased by about \$500,000. The increase was due to 5 more pupils than originally budgeted and an increase in the foundation allowance of \$289 more than originally budgeted resulting in a gain of \$225,000, the receipt of \$150,000 more in MPERS funding, an increase in 31a revenue of \$38,000, and new funding of \$131,000 for a school psychologist, offset by a reduction in 31N mental health revenue of \$36,000 that will be carried forward to subsequent years.
- The *federal source* revenue budget increased by \$26,000 due to multiple COVID-19 related grants.



Management’s Discussion and Analysis 2021-2022

Expenditures – The significant changes by functional category from the beginning to end of year as follows:

- The **added needs** increased by \$63,000 due to \$99,000 for the staff covered by the COVID grants and a \$39,000 reduction in special education staffing needs.
- The **pupil services** decreased by \$31,000 due to hiring a school psychologist rather than contracting that position.
- The **instructional services** increased by \$45,000 due to \$12,000 for a grant-funded literacy coach, \$14,000 for teacher professional development, and \$6,000 for a contracted instructional coach
- The **operations and maintenance** increased \$122,000 to account for additional heating and electrical costs \$28,000, \$13,000 increase in liability insurance, \$18,000 for water filling stations, \$32,000 for ionizers, \$8,000 to repair a sink hole, and \$24,000 to install air conditioning.
- The **transportation services** increased by \$119,000 due to an increase in bus driver costs of \$36,000, an increase in fuel costs of \$52,000, an increase in professional development costs of \$4,000, and an increase in repairs and maintenance costs of \$22,000.
- **Athletics** decreased by \$19,000 due to a reduction in the number of coaching positions filled.
- The **outgoing transfers and other transactions** increased by \$128,000 to account for an increase in transfers to the capital projects fund of \$103,000 and \$24,000 for the purchase of an electronic sign.

Capital Assets

At June 30, 2022, the School District had \$17,580,615 (after accumulated depreciation) invested in a broad range of capital assets, including land, construction in progress, buildings, vehicles, and furniture and equipment. This amount represents a net decrease (including additions, deductions, and depreciation) of \$231,058 from last year. The decrease is due to the net addition of \$735,945 various building and land improvements, and equipment, and depreciation of \$967,003.

	<u>2022</u>	<u>2021</u>
Land	\$ 268,925	\$ 268,925
Construction in progress	-	80,281
Building and building improvements	16,466,656	16,704,920
Buses and other vehicles, furniture and equipment	<u>845,034</u>	<u>757,547</u>
Total capital assets	<u>\$17,580,615</u>	<u>\$17,811,673</u>

Debt

At the end of this year, the School District had \$17,392,496 in outstanding long-term obligations, excluding pension related liabilities. This is a net decrease of \$849,909 in long-term obligations. During the fiscal year, the district received \$110,369 of proceeds from the School Loan Revolving Fund to assist in debt service payments for general obligation bonds. We present detailed information about our long-term liabilities in the notes to the financial statements.



Management's Discussion and Analysis 2021-2022

Economic Factors and Next Year's Budget

Our elected officials and administration considered many factors when setting the School District's 2023 fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation allowance is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2023 fiscal year is a blend of 10 percent of the February 2022 student count and 90 percent of the September 2023 student count, respectively. The 2023 budget was adopted in June 2022, based on an estimated number of students that will be enrolled in September 2022. Approximately 73 percent of total General Fund revenue is from the foundation allowance. Under State law, the School District cannot assess additional property tax revenue for general operations. As a result, School 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 School District to amend the budget if actual School District resources are not sufficient to fund original appropriations.

For the 2022-2023 school year, the district budgeted an increase in the per pupil foundation allowance of \$600 to \$9,300 with an increase in pupil enrollment of 2 students.

Contacting the School District's Financial Management

This financial report is designed to provide the School District's citizens, taxpayers, customers, investors, and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact our Business Department at the Holton Public Schools Administrative Office, Holton, Michigan 49425.

Holton Public Schools
STATEMENT OF NET POSITION
June 30, 2022

	Governmental activities
ASSETS	
Current assets	
Cash and cash equivalents	\$ 1,477,353
Investments	1,139,585
Receivables	786
Due from other governmental units	1,943,968
Inventories	19,558
Prepaid items	60,132
Total current assets	4,641,382
Noncurrent assets	
Restricted cash	1,360,000
Capital assets, net	
Nondepreciable	268,925
Depreciable	17,311,690
Total noncurrent assets	18,940,615
Total assets	23,581,997
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charges on refunding	122,410
Related to other postemployment benefits	1,128,970
Related to pensions	2,826,751
Total deferred outflows of resources	4,078,131
Total assets and deferred outflows of resources	27,660,128
LIABILITIES	
Current liabilities	
State aid loans	1,300,000
Accounts payable and accrued liabilities	1,169,712
Due to other governmental units	60,835
Unearned revenue	80,572
Bonds and other obligations, due within one year	961,598
Total current liabilities	3,572,717
Noncurrent liabilities	
Bonds and other obligations, less amounts due within one year	16,430,898
Net other postemployment benefits liability	701,449
Net pension liability	10,807,132
Total noncurrent liabilities	27,939,479
Total liabilities	31,512,196
DEFERRED INFLOWS OF RESOURCES	
Related to other postemployment benefits	2,623,774
Related to pensions	4,280,014
Total deferred inflows of resources	6,903,788
Total liabilities and deferred inflows of resources	38,415,984
NET POSITION	
Net investment in capital assets	2,424,277
Restricted for	
Capital projects	340,191
Debt service	1,376,623
Technology	42,665
Unrestricted	(14,939,612)
Total net position	\$(10,755,856)

The accompanying notes are an integral part of this statement.

Holton Public Schools
STATEMENT OF ACTIVITIES
For the year ended June 30, 2022

<i>Functions/Programs</i>	<u>Expenses</u>	<u>Program Revenue</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for services</u>	<u>Operating grants and contributions</u>	<u>Governmental activities</u>
Governmental activities				
Instruction	\$ 5,986,137	\$ 15,692	\$ 2,503,093	\$ (3,467,352)
Support services	4,291,778	131,002	1,061,328	(3,099,448)
Community services	57,436	-	62,059	4,623
Food services	766,036	30,570	833,792	98,326
Student/school activities	172,923	-	202,008	29,085
Athletics	478,255	34,344	-	(443,911)
Interest on long-term debt	526,746	-	-	(526,746)
Total governmental activities	<u>\$ 12,279,311</u>	<u>\$ 211,608</u>	<u>\$ 4,662,280</u>	(7,405,423)
General revenues				
Property taxes				2,055,994
Grants and contributions not restricted to specific programs				6,123,600
Investment earnings				2,028
Miscellaneous				51,014
Total general revenues				<u>8,232,636</u>
Change in net position				827,213
Net position at beginning of year				<u>(11,583,069)</u>
Net position at end of year				<u>\$ (10,755,856)</u>

The accompanying notes are an integral part of this statement.

Holton Public Schools
BALANCE SHEET
 Governmental Funds
 June 30, 2022

	General Fund	School Improvement Sinking Fund	2018 Capital Projects Fund	Other governmental funds	Total governmental funds
ASSETS					
Cash and cash equivalents	\$ 935,785	\$ -	\$ -	\$ 541,568	\$ 1,477,353
Investments	1,035,801	-	-	103,784	1,139,585
Receivables	703	-	-	83	786
Due from other governmental units	1,902,057	-	-	41,911	1,943,968
Due from other funds	43,687	-	-	9,093	52,780
Inventories	-	-	-	19,558	19,558
Prepaid items	20,132	-	-	40,000	60,132
Restricted cash and cash equivalents	-	1,360,000	-	-	1,360,000
Total assets	\$ 3,938,165	\$ 1,360,000	\$ -	\$ 755,997	\$ 6,054,162
LIABILITIES					
State aid loans	\$ 1,300,000	\$ -	\$ -	\$ -	\$ 1,300,000
Accounts payable	29,826	-	-	38,311	68,137
Accrued liabilities	1,014,400	-	-	-	1,014,400
Due to other governmental units	56,351	-	-	4,484	60,835
Due to other funds	9,093	-	-	43,687	52,780
Unearned revenue	78,390	-	-	2,182	80,572
Total liabilities	2,488,060	-	-	88,664	2,576,724
FUND BALANCES					
Nonspendable					
Inventories	-	-	-	19,558	19,558
Prepaid items	20,132	-	-	40,000	60,132
Restricted					
Debt service	-	1,360,000	-	103,798	1,463,798
Technology	-	-	-	42,665	42,665
Capital projects	-	-	-	340,191	340,191
Committed for student/school activities	-	-	-	140,429	140,429
Assigned to subsequent year's budget appropriations	507,184	-	-	-	507,184
Unassigned	922,789	-	-	(19,308)	903,481
Total fund balances	1,450,105	1,360,000	-	667,333	3,477,438
Total liabilities and fund balances	\$ 3,938,165	\$ 1,360,000	\$ -	\$ 755,997	\$ 6,054,162

The accompanying notes are an integral part of this statement.

Holton Public Schools
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET POSITION**
 June 30, 2022

Total fund balance—governmental funds		\$ 3,477,438
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not current financial resources and are not reported in the governmental funds.		
Cost of capital assets	\$ 33,655,481	
Accumulated depreciation	<u>(16,074,866)</u>	17,580,615
Deferred charges on refunding are not capitalized and amortized in the governmental funds.		
Deferred charges on refunding	235,699	
Accumulated amortization	<u>(113,289)</u>	122,410
Deferred inflows and outflows of resources related to pensions and other postemployment benefits are not reported in the governmental funds.		
Deferred outflows of resources - related to other postemployment benefits	1,128,970	
Deferred inflows of resources - related to other postemployment benefits	(2,623,774)	
Deferred outflows of resources - related to pensions	2,826,751	
Deferred inflows of resources - related to pensions	<u>(4,280,014)</u>	(2,948,067)
Accrued interest in governmental activities is not reported in the governmental funds.		
		(87,175)
Long-term obligations in governmental activities are not due and payable in the current period and are not reported in the governmental funds.		
		<u>(28,901,077)</u>
Net position of governmental activities		<u>\$ (10,755,856)</u>

The accompanying notes are an integral part of this statement.

Holton Public Schools
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 Governmental Funds
 For the year ended June 30, 2022

	General Fund	School Improvement Sinking Fund	2018 Capital Projects Fund	Other governmental funds	Total governmental funds
REVENUES					
Local sources					
Property taxes	\$ 790,786	\$ -	\$ -	\$ 1,265,208	\$ 2,055,994
Investment earnings	1,517	-	14	497	2,028
Fees and charges	73,308	-	-	15,399	88,707
Student/school activity income	-	-	-	202,008	202,008
Other	445,294	-	3,445	176,828	625,567
Total local sources	1,310,905	-	3,459	1,659,940	2,974,304
State sources	8,105,201	-	-	30,226	8,135,427
Federal sources	1,662,274	-	-	813,966	2,476,240
Total revenues	11,078,380	-	3,459	2,504,132	13,585,971
EXPENDITURES					
Current					
Instruction	6,408,863	-	-	60,036	6,468,899
Support services	4,181,935	-	-	95,587	4,277,522
Food services	-	-	-	1,311,616	1,311,616
Athletics	302,318	-	-	-	302,318
Community services	57,436	-	-	-	57,436
Student/school activities	-	-	-	172,923	172,923
Capital outlay	23,973	-	-	80,514	104,487
Debt service					
Principal repayment	-	-	-	920,000	920,000
Interest and other charges	-	-	-	557,900	557,900
Capital projects	-	-	28,175	-	28,175
Total expenditures	10,974,525	-	28,175	3,198,576	14,201,276
Excess (deficiency) of revenues over (under) expenditures	103,855	-	(24,716)	(694,444)	(615,305)
OTHER FINANCING SOURCES (USES)					
Transfers in	-	113,333	-	114,093	227,426
Transfers out	(227,426)	-	-	-	(227,426)
Loan proceeds	-	-	-	110,369	110,369
Total other financing sources (uses)	(227,426)	113,333	-	224,462	110,369
Net change in fund balances	(123,571)	113,333	(24,716)	(469,982)	(504,936)
Fund balances at beginning of year	1,573,676	1,246,667	24,716	1,137,315	3,982,374
Fund balances at end of year	\$ 1,450,105	\$ 1,360,000	\$ -	\$ 667,333	\$ 3,477,438

The accompanying notes are an integral part of this statement.

Holton Public Schools
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**
 For the year ended June 30, 2022

Net change in fund balances—total governmental funds \$ (504,936)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures; in the Statement of Activities these costs are depreciated over their estimated useful lives.

Depreciation expense	\$ (967,003)	
Capital outlay	<u>735,945</u>	(231,058)

Governmental funds report outlays for deferred charges on refunding as expenditures; in the Statement of Activities the costs are amortized over the bond period.

Amortization expense		(15,626)
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Debt proceeds are other financing sources in the governmental funds, but the proceeds increase long-term debt in the Statement of Net Position.

(160,877)

Repayment of principal on long-term obligations is an expenditure in the governmental funds, but the repayment reduces long-term obligations in the Statement of Net Position.

1,011,730

Interest expense on long-term obligations is recorded in the Statement of Activities when incurred, but is not reported in governmental funds until paid.

5,558

Compensated absences and other termination obligations reported in the Statement of Activities do not require the use of current financial resources. They are reported as expenditures when financial resources are used in the governmental funds.

(944)

Some other postemployment benefits related 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.

788,268

Some pension related 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.

(64,902)

Change in net position of governmental activities		<u>\$ 827,213</u>
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The accompanying notes are an integral part of this statement.

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Holton Public Schools (School District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School District's accounting policies are described below.

Reporting Entity

The School District is governed by an elected seven-member Board of Education (Board), which has responsibility and control over all activities related to public school education within the School District. The School District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities.

Generally accepted accounting principles require that if the School District is considered to be financially accountable for other organizations, those organizations should be included as component units in the School District's financial statements. Since no organizations met this criterion, none are included in the financial statements.

Basis of Presentation—Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the School District. All fiduciary activities, if any, are reported only in the fund financial statements. Governmental activities normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions.

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

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

The fund financial statements provide information about the School 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 School District reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the School District, except those required to be accounted for in another fund.

The School Improvement Sinking Fund accounts for resources accumulated and principal payments made for the 2009 School Improvement Bond.

The 2018 Capital Projects Fund accounts for financial resources to be used for the acquisition of fixed assets or construction of major capital projects from the 2018 bond.

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Basis of Presentation—Government-wide and Fund Financial Statements—Continued

Additionally, the School District reports the following fund types:

The 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 School District accounts for its food service, student/school activities, and safety and technology activities in the school service special revenue funds.

The debt service funds account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The capital project fund accounts for financial resources to be used for the acquisition of fixed assets or construction of major capital projects.

During the course of operations the School 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 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 School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. 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.

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus and Basis of Accounting—Continued

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 school districts. For the current fiscal year, the foundation allowance was based on pupil membership counts taken in October and February.

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. 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 due from other governmental units.

The School 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.

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

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

Cash and investments

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

Investments for the School District are reported at fair value (generally based on quoted market prices). Standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the School District intends to hold the investment until maturity.

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS
 June 30, 2022

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

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

Cash and Investments—Continued

State statutes authorize the School District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The School District is also authorized to invest in U. S. Government or federal agency obligation repurchase agreements, bankers’ acceptances of U.S. banks, and mutual funds composed of investments as outlined above. The School District’s deposits and investments are in accordance with statutory authority.

Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out method. 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 government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the government-wide financial statements. Capital assets are defined by the School District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year.

As the School District constructs or acquires additional capital assets each period, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. 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 School District are depreciated using the straight-line method over the following estimated useful lives:

<u>Capital Asset Classes</u>	<u>Years</u>
Buildings and improvements	20-50
Furniture and equipment	5-20
Vehicles and equipment	8

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as expenses 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.

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

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

Defined Benefit Plan

For purposes of measuring the net pension and net other postemployment benefits (OPEB) liabilities, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB, and pension and OPEB expense, information about the fiduciary net position of the Michigan Public School Employees Retirement System (MPERS) and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. 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/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditures) until then.

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.

Net Position Flow Assumption

Sometimes the government 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 of net position to report as restricted and unrestricted 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 School District's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

In the computation of net investment in capital assets, School Loan Revolving Fund debt is not considered to be capital related debt.

Fund Balance Flow Assumptions

Sometimes the School 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 School 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.

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

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

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 government 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 School District’s highest level of decision-making authority. The Board of Education is the highest level of decision-making authority for the School District that can, by formal action prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by formal action remains in place until a similar action is taken (another formal action) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the School 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 or capital 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 School District are collected by various municipalities and periodically remitted to the School District. The taxes are levied as of 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 date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

Compensated Absences

The liability for compensated absences reported in the government-wide statement consists of unpaid, accumulated sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

For fund financial statements, no compensated absence liability is reported for current employees and a compensated absence liability is reported for terminated employees only when the termination date is on or before year end.

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General Fund and special revenue funds. All annual appropriations lapse at year end.

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

1. 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.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by Board of Education resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). 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.
4. The Business Manager is authorized to transfer budgeted amounts within 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 Board of Education.
5. Formal budgetary integration is employed as a management control device during the year.
6. The budget is amended during the year with supplemental appropriations, the last one approved prior to June 30, 2022.

School Bond Construction Compliance

The 2018 Capital Projects Fund includes capital project activities funded with bonds issued after May 1, 1994. For this capital project, the School District has complied with the applicable provisions of §1351(a) of the State of Michigan’s School Code.

Following is a summary of the revenue and expenditures in the 2018 Capital Projects Fund from the inception of the fund through June 30, 2022:

	<u>2018 Capital Projects Fund</u>
Revenue and bond proceeds	\$ 7,142,102
Expenditures	\$ 7,142,102

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS
 June 30, 2022

NOTE C—DEPOSITS AND INVESTMENTS

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

Investment Type	Fair value	Weighted average maturity (Days)	Standard & Poor's rating	Percent
MILAF + Cash Mgmt Class	<u>\$ 1,139,585</u>	25	AAAm	<u>100%</u>

The School District voluntarily invests certain excess funds in an external investment pool (Pool). The Pool utilized by the School District is the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external investment pool of "qualified" investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. The fair value of the School District's investments is the same as the value of the Pool shares.

Interest rate risk

In accordance with its investment policy, the School 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 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 School District's cash requirements.

Credit risk

State law limits investments in commercial paper and corporate bonds to the three highest classifications issued by nationally recognized statistical rating organizations. The School District has no investment policy that would further limit its investment choices.

Concentration of credit risk

In accordance with its investment policy, the School District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the School District 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.

Custodial credit risk - deposits

In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2022, \$2,636,226 of the School District's bank balance of \$2,886,226 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk - investments

For an investment this is the risk that, in the event of the failure of the counterparty, the School 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 School District will minimize custodial credit risk, which is the risk of loss due to 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 School District will do business.

Foreign currency risk

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

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

NOTE C—DEPOSITS AND INVESTMENTS—Continued

Fair value management

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 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 are not subject to the fair value disclosures.

	Amortized Cost
MILAF External Investment pool - CMC	\$1,139,585

Restricted investments

Restrictions are placed on assets by bond agreements. At June 30, 2022, the School Improvement Sinking Fund cash and cash equivalents of \$1,360,000 are in a set-a-side account and are restricted for payment of the outstanding QZAB bonds.

NOTE D—CAPITAL ASSETS

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

	Balance July 1, 2021	Additions	Deductions	Balance June 30, 2022
Capital assets, not being depreciated:				
Land	\$ 268,925	\$ -	\$ -	\$ 268,925
Construction in progress	80,281	-	80,281	-
Total capital assets, not being depreciated	349,206	-	80,281	268,925
Capital assets, being depreciated:				
Buildings and improvements	30,566,693	570,418	-	31,137,111
Furniture and equipment	1,107,305	245,808	122,290	1,230,823
Vehicles and equipment	1,096,694	-	78,072	1,018,622
Total capital assets, being depreciated	32,770,692	816,226	200,362	33,386,556
Less accumulated depreciation:				
Buildings and improvements	13,861,773	808,682	-	14,670,455
Furniture and equipment	692,666	90,884	122,290	661,260
Vehicles and equipment	753,786	67,437	78,072	743,151
Total accumulated depreciation	15,308,225	967,003	200,362	16,074,866
Total capital assets, being depreciated, net	17,462,467	(150,777)	-	17,311,690
Capital assets, net	\$ 17,811,673	\$ (150,777)	\$ 80,281	\$ 17,580,615

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

NOTE D—CAPITAL ASSETS—Continued

Depreciation

Depreciation expense has been charged to functions as follows:

Instruction	\$ 348,769
Support services	351,925
Athletics	220,878
Food services	45,431
	\$ 967,003

NOTE E—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2022 is as follows:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General Fund	Other Governmental Funds	\$ 43,687
Other Governmental Funds	General Fund	9,093
		\$ 52,780

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.

Interfund Transfers

The General Fund transferred \$113,333 to the School Improvement Sinking Fund as a required set-aside principal installment for the QZAB bond payment. The General Fund also transferred \$113,000 to the Capital Projects Fund to fund future capital expenditures. The General Fund also transferred \$1,093 to the Food Service Fund to supplement the funding for the various Food Service programs.

NOTE F—SHORT-TERM DEBT

The School District issues State of Michigan school aid anticipation notes to provide short-term operating funds. The notes are obligations of the General Fund, which received the note proceeds, and are backed by the full faith, credit and resources of the School District. In the event of default, the State of Michigan can withhold future state aid payments. The short-term debt activity for the year ended June 30, 2022 follows:

	<u>Balance</u>		<u>Additions</u>		<u>Reductions</u>		<u>Balance</u>
	<u>July 1, 2021</u>						<u>June 30, 2022</u>
State aid anticipation notes							
2020/2021 0.87% paid August 2021	\$ 1,560,000	\$ -		\$ 1,560,000			\$ -
2021/2022 0.39% due and paid August 2022	-		1,300,000		-		1,300,000
	\$ 1,560,000		\$ 1,300,000		\$ 1,560,000		\$ 1,300,000

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

NOTE G—LONG-TERM OBLIGATIONS

The School District issues bonds, notes and other contractual commitments to provide for the acquisition, construction and improvement of major capital facilities and for the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. The 2009 School Improvement Bond bears no interest and requires the School District to make annual deposits of \$113,333 starting in August 2010 until they mature in August 2024. Notes from direct borrowings and direct placements include the School Loan Revolving fund.

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

	<u>Balance</u> <u>July 1, 2021</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2022</u>	<u>Due within</u> <u>one year</u>
Governmental activities					
Bonds	\$ 15,385,000	\$ -	\$ 920,000	\$ 14,465,000	\$ 960,000
Premium	905,478	-	91,730	813,748	-
Notes from direct borrowings and direct placements	1,929,460	160,877	-	2,090,337	-
Compensated absences	22,467	1,990	1,046	23,411	1,598
	\$ 18,242,405	\$ 162,867	\$ 1,012,776	\$ 17,392,496	\$ 961,598

The additions for notes from direct borrowings and direct placements represent \$110,369 of new draws and \$50,508 of accrued interest on the School Loan Revolving Fund.

The governmental activities refunding bonds and School Building and Site Bonds are secured by future state aid and property tax revenues of the School District. If the School District defaults, the bonds are callable.

The governmental activity notes from direct borrowings and direct placements are comprised of notes payable to the State of Michigan under the School Loan Revolving Fund which are secured by future state aid and property tax revenues of the School District. In the event of default, the State of Michigan can withhold future state aid payments.

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

NOTE G—LONG-TERM OBLIGATIONS—Continued

General obligation bonds and notes from direct borrowing and direct placements consist of the following as of June 30, 2022:

	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Balance</u>
General obligation bonds			
2009 School Improvement Bond	0.0%	Aug 2024	\$ 1,700,000
2015A Refunding General Obligation Bond	4.0%	May 2028	2,550,000
2015B Refunding General Obligation Bond	3.0-5.0%	May 2030	4,110,000
2018 School Building and Site Bond	4.0%	May 2044	<u>6,105,000</u>
			<u>\$ 14,465,000</u>
Notes from direct borrowings and direct placements			
School Loan Revolving Fund	3.1%	May 2032	<u>\$ 2,090,337</u>

The annual requirements of principal and interest to amortize the bonds and notes from direct borrowings and direct placements outstanding as of June 30, 2022 follow:

<u>Year ended June 30,</u>	<u>Governmental activities</u>			
	<u>Bonds</u>		<u>Notes from Direct Borrowings and Direct Placements</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2023	\$ 960,000	\$ 523,050	\$ -	\$ -
2024	1,005,000	480,900	-	-
2025	2,750,000	436,550	-	-
2026	1,095,000	390,000	13,190	103,472
2027	1,140,000	346,200	70,411	106,298
2028-2032	3,405,000	1,135,600	2,006,736	364,786
2033-2037	1,520,000	704,600	-	-
2038-2042	1,785,000	379,600	-	-
2043-2044	805,000	48,600	-	-
	<u>\$ 14,465,000</u>	<u>\$ 4,445,100</u>	<u>\$ 2,090,337</u>	<u>\$ 574,556</u>

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

NOTE H—PENSION AND OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description

The Michigan Public School Employees' Retirement System (System or MPSERS) 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. The board consists of twelve members- eleven appointed by the Governor and the State Superintendent of Instruction, who serves as an ex-officio member.

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

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

The System's financial statements are available on the ORS website at Michigan.gov/ORSSchools.

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. Depending on the plan option selected (Basic, Member Investment Plan (MIP), Pension Plus, Pension Plus 2), member retirement benefits for DB plan members are determined by final average compensation, years of service, and a pension factor ranging from 1.25 percent to 1.50 percent. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

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

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 who became a member 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 percent of salary) and a flexible and transferable defined contribution (DC) tax-deferred investment account that earns an employer match of 50 percent (up to 1 percent 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 service 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.

Employees who first work on or after September 4, 2012, choose between two retirement plans: the Pension Plus plan described above and a DC plan that provides a 50 percent employer match (up to 3 percent of salary) on employee contributions. New employees are automatically enrolled as members in the Pension Plus plan as of their date of hire.

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

NOTE H—PENSION AND OTHER POSTEMPLOYMENT BENEFITS (OPEB)—Continued

Benefits Provided – Pension—Continued

Pension Reform 2012—Continued

They have 75 days from the last day of their first pay period, as reported to ORS, to elect to opt out of the Pension Plus plan and become a qualified participant in the DC plan; if no election is made they will remain in the Pension Plus plan. If they elect to opt out of the Pension Plus plan, their participation in the DC plan will be retroactive to their date of hire.

Employees in the Pension Plus and DC plans are immediately vested in their own contributions and earnings on those contributions. The employee becomes vested in the employer match contribution at the following rates: 50 percent after two years of service, 75 percent after three years of service, and 100 percent after four years of service. Non-vested contributions are forfeited upon termination of employment. Forfeitures during a plan year are credited to a forfeitures account. Forfeitures are first applied to restore any forfeited amounts that are required to be restored. The remaining amounts in the forfeitures account may be maintained in reserve, used to cover a portion of the plan's administrative expenses or offset future employer contributions, as determined by the plan administrator.

Pension Reform 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 (Pension Plus 2) 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 percent. 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 percent for two consecutive years. The law includes other provisions to the retirement eligibility age, plan assumptions, and unfunded liability payment methods.

Regular Retirement

The pension benefit for DB and Pension Plus plan members is based on a member's years of credited service (employment) and final average compensation (FAC). The FAC is calculated based on the member's highest total wages earned during a specific period of consecutive calendar months divided by the service credit accrued during that same time period. For a Member Investment Plan member, who became a member of MPSERS prior to July 1, 2010, the averaging period is 36 consecutive months. For a Pension Plus member, who became a member of MPSERS after June 30, 2010, the averaging period is 60 consecutive months. For a Basic Plan member, this period is the 60 consecutive months yielding the highest total wages. 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.

Post-Retirement Adjustments

A retiree who became a Member Investment Plan member prior to July 1, 2010, receives an annual post-retirement non-compounded increase of three percent of the initial pension in the October following twelve months of retirement. Basic Plan members do not receive an annual post-retirement increase, but are eligible to receive a supplemental payment in those years when investment earnings exceed actuarial assumptions. Pension Plus members do not receive an annual post-retirement increase.

Plan Status

The Basic, MIP, and Pension Plus plans are closed to new entrants. The Pension Plus 2 plan and the DC plan are still open to new entrants.

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

NOTE H—PENSION AND OTHER POSTEMPLOYMENT BENEFITS (OPEB)—Continued

Benefits Provided – 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 healthcare recipient. For members who first worked before July 1, 2008, (Basic, MIP-Fixed, and MIP Graded plan members) the subsidy is the maximum allowed by statute. To limit future liabilities of Other Postemployment Benefits, members who first worked on or after July 1, 2008 (MIP-Plus plan members) have a graded premium subsidy based on career length where they accrue credit towards their insurance premiums in retirement, not to exceed the maximum allowable by statute. Public Act 300 of 2012 sets the maximum subsidy at 80 percent beginning January 1, 2013; 90 percent for those Medicare eligible and enrolled in the insurances as of that date. Dependents are eligible for healthcare coverage if they meet the dependency requirements set forth in Public Act 300 of 1980, as amended.

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

Under Public Act 300 of 2012, members were given the choice between continuing the 3 percent contribution to retiree healthcare and keeping the premium subsidy benefit described above, or choosing not to pay the 3 percent 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 percent employee contribution into their 457 account as of their transition date, earning them a 2 percent employer match into a 401(k) account. Members who selected this option stop paying the 3 percent contribution to retiree healthcare as of the day before their transition date, and their prior contributions were deposited into their 401(k) account.

Contributions – Pension and OPEB

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

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2020 valuation will be amortized over an 18-year period beginning October 1, 2020, and ending September 30, 2038.

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS
 June 30, 2022

NOTE H—PENSION AND OTHER POSTEMPLOYMENT BENEFITS (OPEB)—Continued

Contributions – Pension and OPEB—Continued

The schedules below summarize the contribution rates in effect for the System’s fiscal year ended September 30, 2021.

Pension Contribution Rates		
Benefit Structure	Member	Employer
Basic	0.0 - 4.0 %	19.78 %
Member Investment Plan	3.0 - 7.0	19.78
Pension Plus Plan	3.0 - 6.4	16.82
Pension Plus 2 Plan	6.2	19.59
Defined Contribution	0.0	13.39

OPEB Contribution Rates		
Benefit Structure	Member	Employer
Premium Subsidy	3.0 %	8.43 %
Personal Healthcare Fund	0.0	7.57

The School District’s pension contributions for the year ended June 30, 2022 were equal to the required contribution total. Pension contributions were approximately \$1,888,000 including Section 147c contributions.

For the year ended June 30, 2022, the School District and employee defined contribution plan contributions were approximately \$31,600 and \$66,600 respectively.

The School District’s OPEB contributions for the year ended June 30, 2022 were equal to the required contribution total. OPEB contributions were approximately \$509,900.

Liabilities, Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources

At June 30, 2022, the School District reported a liability of \$10,807,132 for its proportionate share of the MPSERS net pension liability and a liability of \$701,449 for its proportionate share of the MPSERS net OPEB liability.

The net pension and OPEB liabilities were measured as of September 30, 2021, and the total pension and OPEB liabilities used to calculate the net pension and OPEB liabilities were determined by an actuarial valuation rolled forward from September 30, 2020. The School District’s proportion of the net pension and OPEB liabilities was determined by dividing each employer’s statutorily required pension and OPEB contributions to the system during the measurement period by the percent of pension and OPEB contributions, respectively, required from all applicable employers during the measurement period. At September 30, 2021 and 2020, the School District’s pension proportion was 0.04565 and 0.04498 percent, respectively. At September 30, 2021 and 2020, the School District’s OPEB proportion was 0.04596 and 0.04506 percent, respectively.

For the year ended June 30, 2022, the School District recognized pension expense (benefit) of \$1,306,042 and OPEB expense (benefit) of \$(372,906).

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

NOTE H—PENSION AND OTHER POSTEMPLOYMENT BENEFITS (OPEB)—Continued

Liabilities, Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources—Continued

At June 30, 2022, the School District reported deferred outflows of resources and deferred inflows of resources from the following sources:

	Pension		OPEB	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between projected and actual experience	\$ 167,407	\$ 63,641	\$ -	\$ 2,002,236
Changes of assumptions	681,243	-	586,376	87,744
Net difference between projected and actual earnings on plan investments	-	3,474,458	-	528,695
Changes in proportion and differences between School District contributions and proportionate share of contributions	231,148	26,671	97,341	5,099
State of Michigan Section 147c UAAL rate stabilization state aid payments subsequent to the measurement date	-	715,244	-	-
School District contributions subsequent to the measurement date	1,746,953	-	445,253	-
Total	\$ 2,826,751	\$ 4,280,014	\$ 1,128,970	\$ 2,623,774

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

NOTE H—PENSION AND OTHER POSTEMPLOYMENT BENEFITS (OPEB)—Continued

The School District contributions subsequent to the measurement date reported as deferred outflows of resources related to pensions and OPEB resulting from employer contributions subsequent to the measurement date, in the chart above, will be recognized as a reduction of the net pension liability and the net OPEB liability, respectively, in the year ended June 30, 2023. The State of Michigan Section 147c UAAL rate stabilization state aid payments subsequent to the measurement date reported as deferred inflows of resources will be recognized as revenue in the year ended June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions and OPEB will be recognized in expense as follows:

Year ending June 30,	Pension	OPEB
2023	\$ (239,377)	\$ (509,488)
2024	(540,672)	(464,767)
2025	(784,964)	(423,971)
2026	(919,959)	(392,726)
2027	-	(131,812)
Thereafter	-	(17,293)
	\$ (2,484,972)	\$ (1,940,057)

Actuarial Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Summary of Actuarial Assumptions

Valuation date –	September 30, 2020
Actuarial cost method –	Entry age, Normal
Wage inflation rate –	2.75%
Investment rate of return –	6.8% a year for the MIP and Basic plans 6.8% a year for the Pension Plus plan 6% a year for the Pension Plus 2 plan 6.95% a year for OPEB
Salary increases –	2.75%-11.55%, including wage inflation at 2.75%
Cost-of-living pension adjustments –	3% annual non-compounded for MIP members
Healthcare cost trend rate –	Pre-65: 7.75% Year 1 graded to 3.5% Year 15; 3% Year 120 Post-65: 5.25% Year 1 graded to 3.5% Year 15; 3% Year 120

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS
 June 30, 2022

NOTE H—PENSION AND OTHER POSTEMPLOYMENT BENEFITS (OPEB)—Continued

Actuarial Assumptions—Continued

Mortality Assumptions

The healthy life post-retirement mortality tables used in this valuation of the System were the RP-2014 Male and Female Healthy Annuitant Mortality Tables, scaled by 82 percent for males and 78 percent for females and adjusted for mortality improvements using projection scale MP-2017 from 2006.

Opt-Out Assumption

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

Survivor Coverage

80 percent of male retirees and 67 percent of female retirees are assumed to have coverages continuing after the retiree’s death.

Coverage Election at Retirement

75 percent of male and 60 percent of female future retirees are assumed to elect coverage of one or more dependents.

Experience Study

Assumption changes as a result of an experience study for the period 2012 through 2017 have been adopted by the System for use in the annual pension and OPEB valuations beginning with the September 30, 2018 valuation. The total pension and OPEB liabilities as of September 30, 2021 are based on the results of an actual valuation date of September 30, 2020, and rolled forward using generally accepted actuarial procedures, including the experience study.

Long-Term Expected Rate of Return on Investments

The long-term expected rate of return on plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of arithmetic real rates of return for each major asset class included in the plan’s target asset allocation as of September 30, 2021 are summarized in the following table:

Investment Category	Target Allocation	Long-term Expected Real Rate of Return*
Domestic Equity Pools	25.0 %	5.4 %
Private Equity Pools	16.0	9.1
International Equity Pools	15.0	7.5
Fixed Income Pools	10.5	(0.7)
Real Estate and Infrastructure Pools	10.0	5.4
Absolute Return Pools	9.0	2.6
Real Return/Opportunistic Pools	12.5	6.1
Short Term Investment Pools	2.0	(1.3)
Total	100.0 %	

*Long term rates of return are net of administrative expenses and 2% inflation.

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS
 June 30, 2022

NOTE H—PENSION AND OTHER POSTEMPLOYMENT BENEFITS (OPEB)—Continued

Actuarial Assumptions—Continued

Rate of return

For the fiscal year ended September 30, 2021, the annual money-weighted rate of return on plan investments, net of plan investment expense, was 27.3 percent and 27.1 percent on pension plan and OPEB plan investments, respectively.

Discount rate

In the current year, the discount rates used to measure the total pension and OPEB liabilities were 6.8 percent (6.8 percent for the Pension Plus plan and 6 percent for the Pension Plus 2 plan, hybrid plans provided through non-university employers only), and 6.95 percent, respectively. The discount rates used to measure the total pension and OPEB liability as of June 30, 2021 were 6.8 percent (6.8 percent for the Pension Plus Plan and 6 percent for the Pension Plus 2 plan, hybrid plans provided through non-university employers only), and 6.95 percent, respectively. These discount rates for the current year were based on the long-term expected rates of return on pension plan and OPEB investments of 6.8 percent (6.8 percent for the Pension Plus plan, 6 percent for the Pension Plus 2 plan) and 6.95 percent, respectively. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension and OPEB plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension and OPEB plan investments was applied to all periods of projected benefit payments to determine the total pension and OPEB liabilities.

Sensitivity of the net pension liability to changes in the discount rate

The following presents the School District's proportionate share of the net pension liability calculated using the discount rate of 6.8 percent (6.8 percent for the Pension Plus plan and 6 percent for the Pension Plus 2 plan), as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher:

1% Lower* (5.8% / 5.8% / 5.0%)	Discount Rate* (6.8% / 6.8% / 6.0%)	1% Higher* (7.8% / 7.8% / 7.0%)
\$ 15,451,268	\$ 10,807,132	\$ 6,956,839

*Discount rates listed in the following order: Basic and Member Investment Plan (MIP), Pension Plus, and Pension Plus 2.

Sensitivity of the net OPEB liability to changes in the discount rate

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

1% Lower (5.95%)	Discount Rate (6.95%)	1% Higher (7.95%)
\$ 1,303,419	\$ 701,449	\$ 190,592

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS
 June 30, 2022

NOTE H—PENSION AND OTHER POSTEMPLOYMENT BENEFITS (OPEB)—Continued

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rate

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

1% Lower	Current Healthcare Cost Trend Rate	1% Higher
\$ 170,727	\$ 701,449	\$ 1,298,575

Pension and OPEB Plans Fiduciary Net Position

Detailed information about the pension and OPEB plans’ fiduciary net position is available in the separately issued Michigan Public School Employees Retirement System Comprehensive Annual Financial Report available at www.michigan.gov/orsschools.

Payable to the pension and OPEB plan

At year end the School District is current on all required pension and OPEB payments. Accruals for July and August deferred payroll and for July and August Section 147c amounts are not considered payables for this purpose.

NOTE I—COMMITMENTS AND CONTINGENCIES

Grant Programs

The School District participates in grant programs, which are subject to program compliance audits by the grantor or its representatives. Such audits of these programs may be performed at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the School District expects such amounts, if any, to be immaterial.

Related Party Transactions

The School District contracted with a company owned by a board member to provide food service totaling approximately \$2,293.

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

NOTE J—OTHER INFORMATION

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. The School District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The School District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. In the event a pool's total 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 workers' compensation pool and the property casualty pool maintain reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type coverage of reinsurance.

The School District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2022 or any of the prior three years.

NOTE K—SUBSEQUENT EVENT

In August 2022, the School District received the proceeds of a \$1,000,000 State of Michigan (State) school aid anticipation note payable. The note payable is not subject to redemption prior to its maturity in August 2023 and bears interest at the rate of 3.12 percent per annum. The School District pledged for payment of the note payable, the amount of state school aid to be received plus the full faith, credit, and resources of the School District.

NOTE L—TAX ABATEMENTS

GASB Statement 77—*Tax Abatement Disclosures* was issued by the GASB in August 2015 and is effective for the School District's 2017 fiscal year. This Statement requires School Districts to disclose the following information about tax abatement agreements entered into by other governments that reduce the School District's tax revenues: the names of the governments that entered into the agreements, the specific taxes being abated, and the gross dollar amount of taxes abated during the period. For the current fiscal year there were no material agreements entered into by local taxing authorities that would require disclosure.

NOTE M—CHANGE IN ACCOUNTING PRINCIPLE

For the year ended June 30, 2022, the District implemented the following new pronouncement: GASB Statement No. 87, Leases.

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.

There was no material impact on the District's financial statement after the adoption of GASB Statement 87.

Holton Public Schools
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

NOTE N—UPCOMING ACCOUNTING PRONOUNCEMENTS

GASB Statement 96—*Subscription-Based Information Technology Arrangements* was issued by the GASB in May 2020 and will be effective for the School District’s 2023 fiscal year. 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.

REQUIRED SUPPLEMENTARY INFORMATION

Holton Public Schools
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
 General Fund
 For the year ended June 30, 2022

	<u>Budgeted amounts</u>		<u>Actual</u>	<u>Variance with final budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Local sources	\$ 1,130,902	\$ 1,270,604	\$ 1,310,905	\$ 40,301
State sources	7,597,989	8,100,074	8,105,201	5,127
Federal sources	1,646,131	1,671,842	1,662,274	(9,568)
Total revenues	10,375,022	11,042,520	11,078,380	35,860
EXPENDITURES				
Instruction				
Basic programs	4,899,080	4,904,034	4,867,345	36,689
Added needs	1,504,449	1,567,505	1,541,518	25,987
Support services				
Pupil	939,125	908,116	897,696	10,420
Instructional staff	241,669	286,867	283,437	3,430
General administration	317,979	329,313	324,513	4,800
School administration	466,968	481,291	479,895	1,396
Business	234,492	238,312	233,696	4,616
Operations and maintenance	910,312	1,032,478	1,027,796	4,682
Pupil transportation services	602,748	721,618	723,570	(1,952)
Central	219,458	214,408	211,332	3,076
Athletics	318,896	300,203	302,318	(2,115)
Community services	60,774	57,048	57,436	(388)
Outgoing transfers and other transactions	124,333	252,333	251,399	934
Total expenditures	10,840,283	11,293,526	11,201,951	91,575
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (465,261)</u>	<u>\$ (251,006)</u>	(123,571)	<u>\$ 127,435</u>
Fund balance at beginning of year			<u>1,573,676</u>	
Fund balance at end of year			<u>\$ 1,450,105</u>	

Holton Public Schools
REQUIRED SUPPLEMENTARY INFORMATION
Schedule of the School District's Proportionate Share of the Net Pension Liability
 Michigan Public School Employees Retirement System
 Last 10 Fiscal Years (Amounts were determined as of 9/30 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>	<u>2014</u>
School District's proportion of the net pension liability (%)	0.04565%	0.04498%	0.04450%	0.04467%	0.04456%	0.04329%	0.04257%	0.04450%
School District's proportionate share of the net pension liability	\$ 10,807,132	\$ 15,451,593	\$ 14,737,215	\$ 13,427,517	\$ 11,547,797	\$ 10,800,029	\$ 10,397,641	\$ 9,801,058
School District's covered payroll	\$ 5,392,541	\$ 5,223,496	\$ 5,180,614	\$ 4,972,184	\$ 3,930,346	\$ 3,679,677	\$ 3,542,845	\$ 3,773,909
School District's proportionate share of the net pension liability as a percentage of its covered payroll	200.41%	295.81%	284.47%	270.05%	293.81%	293.50%	293.48%	259.71%
Plan fiduciary net position as a percentage of the total pension liability	72.60%	59.72%	60.31%	62.36%	64.21%	63.27%	63.17%	66.20%

Note: For years prior to 2014 the information is not available. Until a full 10-year trend is compiled, information will only be presented for those years for which information is available.

Holton Public Schools
REQUIRED SUPPLEMENTARY INFORMATION
Schedule of the School District's Pension Contributions
 Michigan Public School Employees Retirement System
 Last 10 Fiscal Years (Amounts were determined as of 6/30 of each fiscal year)

	2022	2021	2020	2019	2018	2017	2016	2015
Statutorily required contributions	\$ 1,172,991	\$ 924,068	\$ 908,261	\$ 847,614	\$ 824,699	\$ 708,875	\$ 808,711	\$ 879,894
Contributions in relation to the statutorily required contributions	1,172,991	924,068	908,261	847,614	824,699	708,875	808,711	879,894
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
School District's covered payroll	\$ 6,369,917	\$ 5,175,349	\$ 5,211,965	\$ 5,021,990	\$ 4,840,202	\$ 3,981,240	\$ 3,653,572	\$ 3,555,010
Contributions as a percentage of covered payroll	18.41%	17.86%	17.43%	16.88%	17.04%	17.81%	22.13%	24.75%

Note: For years prior to 2015 the information is not available. Until a full 10-year trend is compiled, information will only be presented for those years for which information is available.

Holton Public Schools
REQUIRED SUPPLEMENTARY INFORMATION
Schedule of the School District's Proportionate Share of the Net OPEB Liability
Michigan Public School Employees Retirement System
Last 10 Fiscal Years (Amounts were determined as of 9/30 of each fiscal year)

	2021	2020	2019	2018	2017
School District's proportion of the net OPEB liability (%)	0.04596%	0.04506%	0.04442%	0.04447%	0.04450%
School District's proportionate share of the net OPEB liability	\$ 701,449	\$ 2,414,109	\$ 3,188,364	\$ 3,534,696	\$ 3,940,843
School District's covered payroll	\$ 5,392,541	\$ 5,223,496	\$ 5,180,614	\$ 4,972,184	\$ 3,930,346
School District's proportionate share of the net OPEB liability as a percentage of its covered payroll	13.01%	46.22%	61.54%	71.09%	100.27%
Plan fiduciary net position as a percentage of the total OPEB liability	87.33%	59.44%	48.46%	42.95%	36.39%

Note: For years prior to 2017 the information is not available. Until a full 10-year trend is compiled, information will only be presented for those years for which information is available.

Holton Public Schools
REQUIRED SUPPLEMENTARY INFORMATION
Schedule of the School District's OPEB Contributions
 Michigan Public School Employees Retirement System
 Last 10 Fiscal Years (Amounts were determined as of 6/30 of each fiscal year)

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Statutorily required contributions	\$ 509,921	\$ 420,807	\$ 413,434	\$ 392,235	\$ 359,118
Contributions in relation to the statutorily required contributions	509,921	420,807	413,434	392,235	359,118
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School District's covered payroll	\$ 6,369,917	\$ 5,175,349	\$ 5,211,965	\$ 5,021,990	\$ 4,840,202
Contributions as a percentage of covered payroll	8.01%	8.13%	7.93%	7.81%	7.42%

Note: For years prior to 2018 the information is not available. Until a full 10-year trend is compiled, information will only be presented for those years for which information is available.

Holton Public Schools
REQUIRED SUPPLEMENTARY INFORMATION
Notes to Required Supplementary Information
For the year ended June 30, 2022

Pension Information

Benefit Changes – there were no changes of benefit terms in 2021.

Changes of assumptions – there were no changes of assumptions in 2021.

OPEB Information

Benefit changes – there were no changes of benefit terms in 2021.

Changes of assumptions – the healthcare cost trend rate for those under the age of 65 increased from 7 percent to 7.75 percent in 2021.