

**HONEY CREEK
COMMUNITY
SCHOOL**



Year Ended
June 30, 2021

Financial
Statements

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HONEY CREEK COMMUNITY SCHOOL

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Independent Auditors' Report

Management and the Board of Trustees
Honey Creek Community School

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Honey Creek Community School, as of June 30, 2021, 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.

Adoption of New Accounting Standard

As described in Note 15 to the financial statements, during the year ended June 30, 2021, the School District adopted GASB Statement No. 84, *Fiduciary Activities*. Our opinions are not modified with respect to this matter.

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2021 on our consideration of Honey Creek Community School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Honey Creek Community School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Honey Creek Community School's internal control over financial reporting and compliance.

Yeo & Yeo, P.C.

Ann Arbor, Michigan
October 27, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

HONEY CREEK COMMUNITY SCHOOL

Management's Discussion and Analysis

As management of Honey Creek Community School, we offer readers of the School's financial statements this narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2021.

Financial Highlights

· Total net position	\$ (5,455,395)
· Change in total net position	345,356
· Total fund balance, general fund	670,612
· Unassigned fund balance, general fund	612,733
· Change in fund balance, general fund	(27,862)
· Change in long-term debt	(442,275)

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the School's basic financial statements. The School's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

The statement of net position presents information on all of the Schools' assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between them reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the School is improving or deteriorating.

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

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

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

HONEY CREEK COMMUNITY SCHOOL

Management's Discussion and Analysis

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

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

The School maintains one governmental fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund.

The School adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund herein to demonstrate compliance with that budget.

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

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

HONEY CREEK COMMUNITY SCHOOL

Management's Discussion and Analysis

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the School, liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$5,455,395 at the close of the most recent fiscal year.

	Net Position	
	Governmental Activities	
	2021	2020
Current and other assets	\$ 995,836	\$ 836,476
Deferred outflows of resources	1,742,137	2,380,344
Current liabilities	325,224	463,816
Noncurrent liabilities	6,725,826	7,771,861
Total liabilities	7,051,050	8,235,677
Deferred inflows of resources	1,142,318	1,028,990
Net position:		
Net investment in capital assets	-	562
Restricted	36,937	36,937
Unrestricted (deficit)	(5,492,332)	(5,853,995)
Total net position	\$ (5,455,395)	\$ (5,816,496)

Restricted net position represents amounts subject to external restrictions such as donations specifically for use by staff and students for class trips. The remaining balance is unrestricted net position, which has a negative balance due to the recording of the School's portion of the Michigan Public School Employees Retirement System (MPERS) net pension and other postemployment benefits liabilities in accordance with GASB 68 and 75. Additional information regarding the School's net pension liability, and net other postemployment benefits liability can be found in the notes to the financial statements.

The School's net position increased by \$345,356 during the current fiscal year. The School's increase in net position was primarily driven by the forgiveness of the Paycheck Protection Program loan ("PPP") and a combination of an increase in state and federal grants related to COVID-19 funding. Charged for services decreased significantly due to the School not running several programs during the year and being virtual for an extended period of time, which also led to a decrease in related expenditures.

HONEY CREEK COMMUNITY SCHOOL

Management's Discussion and Analysis

	Changes in Net Position	
	Governmental Activities	
	2021	2020
Program revenues:		
Charges for services	\$ 3,717	\$ 232,440
Operating grants	926,670	868,074
General revenues:		
State school aid	1,858,936	1,798,828
PPP loan forgiveness	442,275	-
Interest revenue	366	569
Other	64,454	92,108
Total revenues	<u>3,296,418</u>	<u>2,992,019</u>
Expenses:		
Instruction	1,948,026	2,232,784
Support services	997,388	1,091,079
Community service	5,648	222,970
Total expenses	<u>2,951,062</u>	<u>3,546,833</u>
Change in net position	345,356	(554,814)
Net position, beginning of year	(5,816,496)	(5,261,682)
Restatement for implementation of GASB 84	15,745	-
Net position, end of year	<u>\$ (5,455,395)</u>	<u>\$ (5,816,496)</u>

Financial Analysis of the Government's Fund

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

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

As of the end of the current fiscal year, the School's governmental fund reported an ending fund of \$670,612, a decrease of \$27,862, in comparison with the prior year. The School had unassigned fund balance of \$612,733. A portion of the fund balance is nonspendable, restricted, or assigned to indicate that it is not available for new spending because the underlying assets are included in inventory and prepaid items, are restricted for externally imposed constraints, or committed by board action, and are not available for current expenditure.

HONEY CREEK COMMUNITY SCHOOL

Management's Discussion and Analysis

School revenues were increased by \$304,399. The main drivers of this increase were the increase in state and federal grants, along with the forgiveness of the PPP loan. Additionally, the School did experience a decrease in charges for services as programs for the School were paused due to COVID-19. The District was able to decrease overall expenditures during the year as instruction was completed virtually for part of the school year.

General Fund Budgetary Highlights

Differences between the original and final amended budgets were due to the expected changes in revenues and expenses. Revenues came in higher than expected because of the increase in expected inter-district revenue from the Washtenaw Intermediate School District and through federal grants related to COVID-19. Expenditures came in lower than expected due to expected expenditures not happening. These changes in revenues and expenditures led to a much smaller decrease in fund balance than expected.

Capital Asset and Debt Administration

Capital Assets. The School's investment in capital assets decreased by \$562, which was the remaining depreciation of the only depreciable asset the School maintains. This resulted in the Schools capital asset, net of accumulated depreciation, of zero.

Additional information on the School's capital assets can be found in the notes to the financial statements section of this report.

Long-term Debt. During the year, the School's loan under the PPP program was forgiven on May 17, 2021, resulting in a decrease in the school's long-term debt of \$442,275.

Additional information on the School's long-term debt can be found in the notes to the financial statements section of this report.

Factors Bearing on the School's Future

The following factors were also considered in preparing the School's budget for the 2021-22 fiscal year:

- Most of the School's revenue is derived from the per pupil foundation allowance, so student enrollment is one of the key factors in forecasting revenue. One the final student count is known in October, State law requires the School to amend the budget if actual revenues will vary significantly from those originally appropriated. For the 21/22 year, the School budgeted and increase in foundation of \$589, taking the foundation allowance per student from \$8,111 to \$8,700.
- The School had an increase of student FTE of 4 during the 20/21 fiscal year, bringing this count up to 227. For the 21/22 school year, the School budgeted for an increase of 23, bringing the expected student FTE to 250.

HONEY CREEK COMMUNITY SCHOOL

Management's Discussion and Analysis

Requests for Information

This financial report is designed to provide a general overview of the School's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Superintendent, 235 Spencer Lane, Ypsilanti, Michigan 48198.

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BASIC FINANCIAL STATEMENTS

HONEY CREEK COMMUNITY SCHOOL

Statement of Net Position

June 30, 2021

	Governmental Activities
Assets	
Current assets:	
Cash and cash equivalents	\$ 451,145
Receivables	541,141
Prepaid items	<u>3,550</u>
Total assets	<u>995,836</u>
Deferred outflows of resources	
Deferred pension amounts	1,290,704
Deferred other postemployment benefit amounts	<u>451,433</u>
Total deferred outflows of resources	<u>1,742,137</u>
Liabilities	
Accounts payable and accrued liabilities	309,782
Unearned revenue	15,442
Net pension liability (due in more than one year)	5,847,064
Net other postemployment benefit liability (due in more than one year)	<u>878,762</u>
Total liabilities	<u>7,051,050</u>
Deferred inflows of resources	
Deferred pension amounts	301,121
Deferred other postemployment benefit amounts	<u>841,197</u>
Total deferred inflows of resources	<u>1,142,318</u>
Net position	
Restricted for:	
Phoenix rising projects	18,275
School age savings	15,745
Equity funds	2,917
Unrestricted (deficit)	<u>(5,492,332)</u>
Total net position	<u>\$ (5,455,395)</u>

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

HONEY CREEK COMMUNITY SCHOOL

Statement of Activities

For the Year Ended June 30, 2021

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Governmental activities				
Instruction	\$ 1,948,026	\$ -	\$ 598,301	\$ (1,349,725)
Support services	997,388	-	328,369	(669,019)
Community service	5,648	3,717	-	(1,931)
Total governmental activities	<u>\$ 2,951,062</u>	<u>\$ 3,717</u>	<u>\$ 926,670</u>	<u>(2,020,675)</u>
General revenues				
Unrestricted state school aid				
restricted to specific programs				1,858,936
Interest revenue				366
PPP Loan forgiveness				442,275
Other local revenue				64,454
Total general revenues				<u>2,366,031</u>
Change in net position				345,356
Net position, beginning of year, as restated				<u>(5,800,751)</u>
Net position, end of year				<u>\$ (5,455,395)</u>

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

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FUND FINANCIAL STATEMENTS

HONEY CREEK COMMUNITY SCHOOL

Balance Sheet

Governmental Fund

June 30, 2021

	General Fund
Assets	
Cash and cash equivalents	\$ 451,145
Due from other governments	541,141
Prepaid items	<u>3,550</u>
Total assets	<u><u>\$ 995,836</u></u>
Liabilities	
Accounts payable	\$ 16,552
Due to other governments	39,433
Accrued payroll	167,371
Accrued liabilities	86,426
Unearned revenue	<u>15,442</u>
Total liabilities	<u>325,224</u>
Fund balances	
Nonspendable for prepaid items	3,550
Restricted for:	
Phoenix rising projects	18,275
School age savings	15,745
Equity funds	2,917
Assigned for Sheibar Foundation special projects	17,392
Unassigned	<u>612,733</u>
Total fund balances	<u>670,612</u>
Total liabilities and fund balances	<u><u>\$ 995,836</u></u>

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

HONEY CREEK COMMUNITY SCHOOL

Reconciliation

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

Fund balances - total governmental fund \$ 670,612

Amounts reported for *governmental activities* in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Capital assets	47,120
Accumulated depreciation on capital assets	(47,120)

Certain pension and other postemployment benefit-related amounts, such as the net pension liability, net other postemployment benefit liability and deferred amounts are not due and payable in the current period or do not represent current financial resources and therefore are not reported in the fund.

Net pension liability	(5,847,064)
Net other postemployment benefit liability	(878,762)
Deferred outflows related to the net pension liability	1,290,704
Deferred inflows related to the net pension liability	(301,121)
Deferred outflows related to the net other postemployment benefit liability	451,433
Deferred inflows related to the net other postemployment benefit liability	<u>(841,197)</u>

Net position of governmental activities \$ (5,455,395)

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

HONEY CREEK COMMUNITY SCHOOL

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Fund

For the Year Ended June 30, 2021

	General Fund
Revenues	
Local revenue	\$ 68,171
State sources	2,271,431
Federal sources	185,806
Interdistrict sources	328,369
Other sources	366
	<hr/>
Total revenues	2,854,143
	<hr/>
Expenditures	
Instruction:	
Basic programs	1,394,535
Added needs	499,462
Total instruction	<hr/> 1,893,997
Support services:	
Pupil	54,736
Instructional services	136,039
General administration	250,497
School administration	192,893
Business	95,963
Operation and maintenance	208,606
Central	39,798
Services to other schools	9,476
Total support services	<hr/> 988,008
Total expenditures	2,882,005
	<hr/>
Net change in fund balances	(27,862)
Fund balances, beginning of year, as restated	<hr/> 698,474
Fund balances, end of year	\$ 670,612
	<hr/> <hr/>

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

HONEY CREEK COMMUNITY SCHOOL

Reconciliation

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

Net change in fund balances - total governmental fund	\$ (27,862)
<p>Amounts reported for <i>governmental activities</i> in the statement of activities are different because:</p>	
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>	
Depreciation expense	(562)
<p>Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statements of net position. In addition, funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are capitalized and amortized on the statement of activities.</p>	
PPP loan forgiveness	442,275
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.</p>	
Change in net pension liability and related deferred amounts	(221,974)
Change in net other postemployment benefit liability and related deferred amounts	<u>153,479</u>
Change in net position of governmental activities	<u>\$ 345,356</u>

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

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NOTES TO FINANCIAL STATEMENTS

HONEY CREEK COMMUNITY SCHOOL

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Honey Creek Community School (the "School") has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relationships with the School.

The School is a public school as part of the Michigan public school system under Public Act N. 362 of 1993. Washtenaw Intermediate School District is the authorizing body for the School and has contracted with the School to charter the public school through June 2024. Board members are voted in by the community and are approved by the authorizing body and have decision making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. The School receives funding from local, state, and federal sources and must comply with all of the requirements of these funding source entities.

Government-wide and Fund Financial Statements

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

HONEY CREEK COMMUNITY SCHOOL

Notes to Financial Statements

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

The School reports the following major governmental fund:

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

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

The effect of interfund activity has been eliminated from the government-wide financial statements.

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

Deposits and Investments

The School'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.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). There were no interfund advance loans outstanding at the end of the current fiscal year.

Prepaid Items

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.

Capital Assets

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

HONEY CREEK COMMUNITY SCHOOL

Notes to Financial Statements

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

Capital assets of the School are depreciated using the straight-line method over 7 years.

Deferred Outflows 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/expenditure) until then. The School reports deferred outflows of resources related to the net pension liability and the net other postemployment benefit liability. A portion of these costs represent contributions to the plan subsequent to the plan measurement date.

Deferred Inflows of Resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time. The School reports deferred inflows of resources related to pension and other postemployment benefit liabilities.

Fund Equity

Governmental funds report nonspendable fund balance for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Restricted fund balance is reported when externally imposed constraints are placed on the use of the resources by grantors, contributors, or laws or regulations of other governments. Committed fund balance is reported for amounts that can be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision making authority, the Board of Education. A formal resolution of the Board of Education is required to establish, modify or rescind a fund balance commitment. As applicable, the School reports assigned fund balance for amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. The board has given the ability to assign fund balance to the Superintendent. Unassigned fund balance is the residual classification for the general fund, as well as for any deficits reported in other governmental funds.

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

HONEY CREEK COMMUNITY SCHOOL

Notes to Financial Statements

Pensions and Other Postemployment Benefits

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

2. BUDGETARY INFORMATION

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

The general fund is under formal budgetary control. Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles (GAAP), and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted or as amended by the Board of Education. All budgets are adopted on a functional basis.

3. EXCESS OF EXPENDITURES OVER BUDGET

Expenditures in excess of budgeted amounts at the legal level of control for the general fund were as follows.

	Final Budget	Actual Expenditures	Over Budget
Instruction -			
Added needs	\$ 484,705	\$ 499,462	\$ 14,757
Supporting services:			
Instructional services	113,463	136,039	22,576
General administration	244,096	250,497	6,401
Central	26,100	39,798	13,698

HONEY CREEK COMMUNITY SCHOOL

Notes to Financial Statements

4. DEPOSITS AND INVESTMENTS

A reconciliation of cash and investments as shown on the Statement of Net Position follows:

Statement of Net Position -	
Cash and cash equivalents	<u>\$ 451,145</u>
Deposits and Investments-	
Bank deposits (checking accounts, savings accounts and CDs)	<u>\$ 451,145</u>

Statutory Authority

State statutes authorize the School to invest in:

Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school, the bonds, bills, or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.

Certificates of deposit insured by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.

Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.

Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.

Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school.

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

The School's investment policy allows all of these types of investments.

HONEY CREEK COMMUNITY SCHOOL

Notes to Financial Statements

Deposit and Investment Risk

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the School's deposits may not be returned. State law does not require and the School does not have a policy for deposit custodial credit risk. As of year end, \$206,970 of the School's bank balance of \$456,970 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The School's investment policy does not have specific limits in excess of state law on investment credit risk.

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

5. ENDOWMENTS

There are two endowments that were established for the School which are held by the Honey Creek Community School Endowment Fund and the Ann Arbor Area Community Foundation. Each of these Organizations is a separate entity with a governing board. The School does not have control over the assets. The value of these assets at June 30, 2021 is as follows:

	Honey Creek Community School Endowment	Ann Arbor Community Foundation
Beginning balance	\$ 6,373	\$ 63,353
Grants and administrative fees	(316)	(3,172)
Interest income	58	577
Net realized and unrealized gain	2,162	21,484
Balance as of June 30, 2021	<u>\$ 8,277</u>	<u>\$ 82,242</u>

6. RECEIVABLES

Receivables as of year end for the Schools' general fund is as follows:

	General Fund
Due from other governments	<u>\$ 541,141</u>

HONEY CREEK COMMUNITY SCHOOL

Notes to Financial Statements

7. CAPITAL ASSETS

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

	Beginning Balance	Additions	Disposals	Ending Balance
Capital assets being depreciated:				
Software	\$ 47,120	\$ -	\$ -	\$ 47,120
Less accumulated depreciation for:				
Software	46,558	562	-	47,120
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Governmental activities capital assets, net	<u>\$ 562</u>	<u>\$ (562)</u>	<u>\$ -</u>	<u>\$ -</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
Supporting services	<u>\$ 562</u>

8. PAYABLES

Accounts payable and accrued liabilities as of year end for the School's general fund is as follows:

	General Fund
Accounts payable	\$ 16,552
Due to other governments	39,433
Accrued payroll	167,371
Accrued liabilities	86,426
	<u> </u>
	<u>\$ 309,782</u>

HONEY CREEK COMMUNITY SCHOOL

Notes to Financial Statements

9. LONG-TERM DEBT

Long-term debt of the School consists of the following:

	Beginning Balance	Additions	Deductions	Ending Balance
Notes from direct borrowing/ direct payments				
Small Business Administration note payable	\$ 442,275	\$ -	\$ (442,275)	\$ -

This loan under the Paycheck Protection Program was forgiven by the US Small Business Administration on May 27, 2021.

10. OPERATING LEASE

The School leases one copier under a noncancelable operating lease. Total costs for the lease were \$3,060 for the year. The future minimum lease payments for the lease are as follows:

Year Ended June 30,	Amount
2022	\$ 3,060
2023	3,060
	<u>\$ 6,120</u>

11. RELATED PARTY TRANSACTIONS

The School leases their premises on a multi-year lease with Washtenaw County Intermediate School (WISD). Total cost for this lease during the year was \$204,832. If the School finds an alternate location prior to August 31, 2021, a notice is writing to the WISD is required with a proposed termination date. If the School wishes to continue the lease agreement after August 31, 2021, the agreement shall continue on a month-to-month basis with payments of \$25,548 per month.

The School currently pays the WISD 3% of its state aid as an administration fee. The amount paid during the 2021 year was \$57,486, of which \$10,866 was outstanding and included in accounts payable at year end.

HONEY CREEK COMMUNITY SCHOOL

Notes to Financial Statements

12. RISK MANAGEMENT

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

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

13. PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS

Plan Description

The Michigan Public School Employees' Retirement System (the "System" or MPSERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (the "State") originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. The board consists of twelve members - eleven appointed by the Governor and the State Superintendent of Instruction, who serves as an ex-officio member.

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

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

The System's financial statements are available at the ORS website at www.michigan.gov/orsschools.

HONEY CREEK COMMUNITY SCHOOL

Notes to Financial Statements

Pension Benefits Provided

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

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

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

HONEY CREEK COMMUNITY SCHOOL

Notes to Financial Statements

Other Postemployment Benefits Provided

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

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

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

Contributions

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

HONEY CREEK COMMUNITY SCHOOL

Notes to Financial Statements

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2019 valuation will be amortized over a 19-year period beginning October 1, 2019 and ending September 30, 2038.

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

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

For the year ended June 30, 2021, required and actual contributions from the School to the pension plan were \$481,543, which included \$216,902, the amount received from the State and remitted to the System to fund the MPSERS unfunded actuarial accrued liability ("UAAL") stabilization rate.

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

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

For the year ended June 30, 2021, required and actual contributions from the School to the OPEB plan were \$116,248.

HONEY CREEK COMMUNITY SCHOOL

Notes to Financial Statements

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

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

For the year ended June 30, 2021, required and actual contributions from the School for those members with a defined contribution benefit were \$20,969.

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

At June 30, 2021, the School reported a liability of \$5,847,064 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2019. The School's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2020, the School's proportion was 0.01702%, which was a decrease of 0.00108% from its proportion measured as of September 30, 2019.

HONEY CREEK COMMUNITY SCHOOL

Notes to Financial Statements

For the year ended June 30, 2021, the School recognized pension expense of \$885,322. At June 30, 2021, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Differences between expected and actual experience	\$ 89,338	\$ 12,480	\$ 76,858
Changes in assumptions	647,911	-	647,911
Net difference between projected and actual earnings on pension plan investments	24,567	-	24,567
Changes in proportion and differences between employer contributions and proportionate share of contributions	80,011	288,641	(208,630)
	<u>841,827</u>	<u>301,121</u>	<u>540,706</u>
School contributions subsequent to the measurement date	448,877	-	448,877
	<u>448,877</u>	<u>-</u>	<u>448,877</u>
Total	<u>\$ 1,290,704</u>	<u>\$ 301,121</u>	<u>\$ 989,583</u>

The \$448,877 reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Amount
2022	\$ 311,839
2023	177,097
2024	49,778
2025	1,992
	<u>1,992</u>
Total	<u>\$ 540,706</u>

HONEY CREEK COMMUNITY SCHOOL

Notes to Financial Statements

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

At June 30, 2021, the School reported a liability of \$878,762 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2019. The School's proportion of the net OPEB liability was determined by dividing each employer's statutorily required OPEB contributions to the system during the measurement period by the percent of OPEB contributions required from all applicable employers during the measurement period. At September 30, 2020, the School's proportion was 0.01640% which was a decrease of 0.00180% from its proportion measured as of September 30, 2019.

For the year ended June 30, 2021, the School recognized OPEB expense of \$(46,256). At June 30, 2021, the School reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Differences between expected and actual experience	\$ -	\$ 654,760	\$ (654,760)
Changes in assumptions	289,745	-	289,745
Net difference between projected and actual earnings on OPEB plan investments	7,334	-	7,334
Changes in proportion and differences between employer contributions and proportionate share of contributions	51,072	186,437	(135,365)
	<u>348,151</u>	<u>841,197</u>	<u>(493,046)</u>
School contributions subsequent to the measurement date	103,282	-	103,282
	<u>103,282</u>	<u>-</u>	<u>103,282</u>
Total	<u>\$ 451,433</u>	<u>\$ 841,197</u>	<u>\$ (389,764)</u>

HONEY CREEK COMMUNITY SCHOOL

Notes to Financial Statements

The \$103,282 reported as deferred outflows of resources related to OPEB resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30,	Amount
2022	\$ (119,090)
2023	(108,901)
2024	(100,176)
2025	(92,783)
2026	<u>(72,096)</u>
Total	<u>\$ (493,046)</u>

Actuarial Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The total pension and OPEB liabilities in the September 30, 2019 actuarial valuation were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry age, normal
Wage inflation rate	2.75%
Investment rate of return:	
MIP and Basic plans (non-hybrid)	6.80%
Pension Plus plan (hybrid)	6.80%
Pension Plus 2 plan (hybrid)	6.00%
OPEB plans	6.95%
Projected salary increases	2.75% - 11.55%, including wage inflation at 2.75%
Cost of living adjustments	3% annual non-compounded for MIP members
Healthcare cost trend rate	7.0% Year 1 graded to 3.5% Year 15; 3.0% Year 120
Mortality	RP-2014 Male and Female Employee Annuitant Mortality Tables, adjusted for mortality improvements using projection scale MP-2017 from 2006. For retirees, the tables were scaled by 82% for males and 78% for females. For active members, 100% of the table rates were used for both males and females.
Other OPEB assumptions:	
Opt-out assumptions	21% of eligible participants hired before July 1, 2008 and 30% of those hired after June 30, 2008 are assumed to opt-out of the retiree health plan.

HONEY CREEK COMMUNITY SCHOOL

Notes to Financial Statements

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

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

Long-term Expected Return on Pension Plan Assets

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2020, are summarized in the following table:

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

HONEY CREEK COMMUNITY SCHOOL

Notes to Financial Statements

Long-term Expected Return on OPEB Plan Assets

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the OPEB plan's target asset allocation as of September 30, 2020, are summarized in the following table:

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

Rate of Return

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

HONEY CREEK COMMUNITY SCHOOL

Notes to Financial Statements

Discount Rate

A discount rate of 6.80% was used to measure the total pension liability (6.80% for the Pension Plus plan, 6.00% for the Pension Plus 2 plan, both of which are hybrid plans provided through non-university employers only) and a discount rate of 6.95% was used to measure the total OPEB liability. This discount rate was based on the long-term expected rate of return on pension and OPEB plan investments of 6.80% (6.80% for the Pension Plus plan, 6.00% for the Pension Plus 2 plan) and 6.95%, respectively. The projection of cash flows used to determine these discount rates assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension and OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension and OPEB plan investments was applied to all periods of projected benefit payments to determine the total pension and OPEB liabilities.

Sensitivity of the School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the School's proportionate share of the net pension liability calculated using the discount rate of 6.80% (6.80% for the Pension Plus plan, 6.00% for the Pension Plus 2 plan), as well as what the School's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher:

	1% Decrease (5.80% / 5.80% / 5.00%)	Current Discount Rate (6.80% / 6.80% / 6.00%)	1% Increase (7.80% / 7.80% / 7.00%)
School's proportionate share of the net pension liability	\$ 7,568,032	\$ 5,847,064	\$ 4,420,764

Sensitivity of the School's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

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

	1% Decrease (5.95%)	Current Discount Rate (6.95%)	1% Increase (7.95%)
School's proportionate share of the net OPEB liability	\$ 1,128,869	\$ 878,762	\$ 668,192

HONEY CREEK COMMUNITY SCHOOL

Notes to Financial Statements

Sensitivity of the School's Proportionate Share of the Net OPEB Liability to Healthcare Cost Trend Rate

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

	1% Decrease (6.00%)	Current Healthcare Cost Trend Rate (7.00%)	1% Increase (8.00%)
School's proportionate share of the net OPEB liability	\$ 660,130	\$ 878,762	\$ 1,127,428

Pension and OPEB Plans Fiduciary Net Position

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

Payable to the Pension Plan

At June 30, 2021, the School reported a payable of \$70,599 for the outstanding amount of pension contributions to the Plan required for the year ended June 30, 2021.

Payable to the OPEB Plan

At June 30, 2021, the School reported a payable of \$13,867 for the outstanding amount of OPEB contributions to the Plan required for the year ended June 30, 2021.

14. CORONAVIRUS (COVID-19)

In March 2020, the World Health Organization declared the novel coronavirus outbreak (COVID-19) to be a global pandemic. While the pandemic has resulted in an increase in the demands on the School to deliver education to students in a safe environment, the Federal Government has also provided significant resources to help mitigate the impacts of COVID-19. The School received \$106,992 during 2021 from various funding sources to be used to respond to the impacts of the COVID-19 pandemic through the CARES Act and other funding sources. This funding was used to purchase personal protection equipment (PPE), cleaning and sanitizing materials, and supplies, as well as for activities to support remote learning for students. With these additional Federal resources, at this time management does not believe that the negative financial impact of the pandemic, if any, would be material to the School.

HONEY CREEK COMMUNITY SCHOOL

■ Notes to Financial Statements

15. RESTATEMENTS

The School adopted the provisions of GASB Statement No. 84, *Fiduciary Activities*, in the current year. As a result of this change, beginning fund balance of the general fund and beginning net position of governmental activities were increased by \$15,745.

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REQUIRED SUPPLEMENTARY INFORMATION

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HONEY CREEK COMMUNITY SCHOOL

Schedule of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund
For the Year Ended June 30, 2021

	Original Budget	Final Budget	Actual	Over (under) Final Budget
Revenues				
Local revenue	\$ 184,500	\$ 51,200	\$ 68,171	\$ 16,971
State sources	2,234,887	2,264,174	2,271,431	7,257
Federal sources	56,250	100,646	185,806	85,160
Interdistrict sources	245,062	219,755	328,369	108,614
Other sources	700	325	366	41
Total revenues	<u>2,721,399</u>	<u>2,636,100</u>	<u>2,854,143</u>	<u>218,043</u>
Expenditures				
Instruction:				
Basic programs	1,459,697	1,486,590	1,394,535	(92,055)
Added needs	485,290	484,705	499,462	14,757
Total instruction	<u>1,944,987</u>	<u>1,971,295</u>	<u>1,893,997</u>	<u>(77,298)</u>
Support services:				
Pupil	124,019	64,881	54,736	(10,145)
Instructional services	107,966	113,463	136,039	22,576
General administration	241,522	244,096	250,497	6,401
School administration	160,438	198,274	192,893	(5,381)
Business	94,477	133,581	95,963	(37,618)
Operation and maintenance	191,832	209,782	208,606	(1,176)
Pupil transportation services	3,200	-	-	-
Central	26,150	26,100	39,798	13,698
Services to other schools	139,766	10,468	9,476	(992)
Total support services	<u>1,089,371</u>	<u>1,000,645</u>	<u>988,008</u>	<u>(12,637)</u>
Capital outlay	<u>3,500</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>3,037,857</u>	<u>2,971,940</u>	<u>2,882,005</u>	<u>(89,935)</u>
Net change in fund balance	(316,458)	(335,840)	(27,862)	307,978
Fund balance, beginning of year, as restated	<u>698,474</u>	<u>698,474</u>	<u>698,474</u>	<u>-</u>
Fund balance, end of year	<u>\$ 382,016</u>	<u>\$ 362,634</u>	<u>\$ 670,612</u>	<u>\$ 307,978</u>

HONEY CREEK COMMUNITY SCHOOL

Required Supplementary Information

MPSERS Cost-Sharing Multiple Employer Plan

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

	Year Ended June 30,		
	2021	2020	2019
District's proportionate share of the net pension liability	\$ 5,847,064	\$ 6,022,340	\$ 5,444,229
District's proportion of the net pension liability	0.01702%	0.01810%	0.01810%
District's covered payroll	\$ 1,483,061	\$ 1,617,675	\$ 1,630,844
District's proportionate share of the net pension liability as a percentage of its covered payroll	394.26%	372.28%	333.83%
Plan fiduciary net position as a percentage of the total pension liability	59.72%	60.31%	62.36%

See notes to required supplementary information.



Year Ended June 30,				
2018	2017	2016	2015	
\$ 4,537,015	\$ 4,184,237	\$ 3,750,553	\$ 3,406,762	
0.01750%	0.01680%	0.01540%	0.15500%	
\$ 1,470,575	\$ 1,391,093	\$ 1,401,178	\$ 1,354,781	
308.52%	300.79%	267.67%	251.46%	
64.21%	63.27%	63.17%	66.20%	

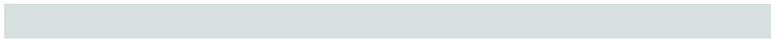
HONEY CREEK COMMUNITY SCHOOL

Required Supplementary Information

MPERS Cost-Sharing Multiple Employer Plan
Schedule of the School's Pension Contributions

	Year Ended June 30,		
	2021	2020	2019
Statutorily required contributions	\$ 481,543	\$ 477,669	\$ 486,118
Contributions in relation to the statutorily required contributions	<u>(481,543)</u>	<u>(477,669)</u>	<u>(486,118)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 1,478,662	\$ 1,551,579	\$ 1,609,802
Contributions as a percentage of covered payroll	32.57%	30.79%	30.20%

See notes to required supplementary information.



Year Ended June 30,			
2018	2017	2016	2015
\$ 514,843	\$ 348,516	\$ 262,349	\$ 281,637
<u>(514,843)</u>	<u>(348,516)</u>	<u>(262,349)</u>	<u>(281,637)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 1,619,431	\$ 1,446,425	\$ 1,374,129	\$ 1,403,224
31.79%	24.09%	19.09%	20.07%

HONEY CREEK COMMUNITY SCHOOL

Required Supplementary Information

MPSERS Cost-Sharing Multiple Employer Plan

Schedule of the School's Proportionate Share of the Net Other Postemployment Benefit (OPEB) Liability

	Year Ended June 30,			
	2021	2020	2019	2018
District's proportionate share of the net OPEB liability	\$ 878,762	\$ 1,307,246	\$ 1,505,606	\$ 1,571,180
District's proportion of the net OPEB liability	0.01640%	0.01820%	0.01890%	0.01770%
District's covered payroll	\$ 1,483,061	\$ 1,617,675	\$ 1,630,844	\$ 1,470,575
District's proportionate share of the net OPEB liability as a percentage of its covered payroll	59.25%	80.81%	92.32%	106.84%
Plan fiduciary net position as a percentage of the total OPEB liability	59.44%	48.46%	42.95%	36.39%

See notes to required supplementary information.

HONEY CREEK COMMUNITY SCHOOL

Required Supplementary Information

MPSERS Cost-Sharing Multiple Employer Plan

Schedule of the School's Other Postemployment Benefit (OPEB) Contributions

	Year Ended June 30,			
	2021	2020	2019	2018
Statutorily required contributions	\$ 116,248	\$ 122,398	\$ 118,911	\$ 132,170
Contributions in relation to the statutorily required contributions	<u>(116,248)</u>	<u>(122,398)</u>	<u>(118,911)</u>	<u>(132,170)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 1,478,662	\$ 1,551,579	\$ 1,609,802	\$ 1,619,431
Contributions as a percentage of covered payroll	7.86%	7.89%	7.39%	8.16%

See notes to required supplementary information.

HONEY CREEK COMMUNITY SCHOOL

Notes to Required Supplementary Information

Pension Information

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

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

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

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

OPEB Information

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

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

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

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

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Independent Auditors' Report

Management and the Board of Trustees
Honey Creek Community Schools

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Honey Creek Community School, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise Honey Creek Community School's basic financial statements, and have issued our report thereon dated October 27, 2021.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Yeo & Yeo, P.C.

Ann Arbor, MI
October 27, 2021

Honey Creek Community School
Schedule of Findings and Responses
June 30, 2021

Government Auditing Standards Findings

There were no *Government Auditing Standards* findings for the year ended June 30, 2021.

Honey Creek Community School
Summary Schedule of Prior Audit Findings
June 30, 2021

Prior Audit Findings

There were no *Government Auditing Standards* findings for the year ended June 30, 2020.