SPARTA AREA SCHOOLS
Kent County, Michigan

Annual Financial Report

For the year ended June 30, 2022

Hungerford Nichols CPAs + Advisors
Where good ideas add up

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Hungerford Nichols CPAs + Advisors
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INDEPENDENT AUDITOR'S REPORT

October 31, 2022

The Board of Education
Sparta Area Schools

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 Sparta Area Schools as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Sparta Area 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 Sparta Area Schools, as of June 30, 2022, and the respective changes in financial position and the respective budgetary comparison for the General Fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 Sparta Area 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.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Sparta Area 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 judgment 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 Sparta Area 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 judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Sparta Area 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.

Required Supplementary Information

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

Supplementary Information

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

Emphasis of Matter

Change in Accounting Principle

As discussed in Note L to the financial statements, the District adopted the Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases* for the fiscal year ended June 30, 2022. Our opinion is not modified in respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2022 on our consideration of Sparta Area Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 Sparta Area 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 Sparta Area Schools' internal control over financial reporting and compliance.

Hungerford Nichols

Certified Public Accountants
Grand Rapids, Michigan

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MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Sparta Area Schools ("the District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2022. We encourage readers to consider the information presented here in conjunction with the District's financial statements, which immediately follow this section.

Overview of the Financial Statements

This annual report consists of four parts: Management's Discussion and Analysis (this section), the Basic Financial Statements, Required Supplementary Information, and Supplementary Information. The Basic Financial Statements include two kinds of statements that present different views of the District:

- The first two statements, the Statement of Net Position and the Statement of Activities, are *district-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.

- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.

    - *Governmental funds statements* tell how basic services such as regular and special education were financed in the short-term as well as what remains for future spending.

    - *Fiduciary funds statements* provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The Basic Financial Statements also include Notes to Financial Statements that explain the information in the Basic Financial Statements and provide more detailed data; Required Supplementary Information includes pension and OPEB information schedules; Other Supplementary Information follows and includes combining and individual fund statements and schedules.

District-wide Statements

The district-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two district-wide statements report the District's net position, and how they have changed. Net position - the difference between the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources - is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net position are an indicator of whether its financial position is improving or deteriorating, respectively.

- To assess the District's overall health, one should consider additional non-financial factors such as changes in the District's property tax-base and the condition of school buildings and other facilities.

In the district-wide financial statements, the District's activities are presented as follows:

- *Governmental activities*: The District's basic services are included here, such as regular and special education, instructional support, transportation, administration, community services, food service and athletics. State aid and property taxes finance most of these activities.

New Accounting Pronouncement Implemented

The District implemented Governmental Accounting Standard Board (GASB) Statement No. 87, *Leases* during the fiscal year ended June 30, 2022. This Statement is to enhance the relevance and consistency of information about governments' leasing activities. See Note L for additional details.

Condensed District-wide Financial Information

The Statement of Net Position provides financial information on the District as a whole.

	2022	2021
Assets		
Current assets	$ 17,408,012	$ 18,038,169
Net capital assets	81,485,763	81,511,041
Total Assets	**98,893,775**	**99,549,210**
Deferred Outflows of Resources	**10,388,782**	**14,493,206**
Liabilities		
Current liabilities	7,967,740	7,691,510
Long-term liabilities	75,125,906	73,678,273
Net pension liability	33,824,240	49,284,924
Net OPEB liability	2,175,807	7,639,846
Total Liabilities	**119,093,693**	**138,294,553**
Deferred Inflows of Resources	**19,539,331**	**6,196,475**
Net Position		
Net investment in capital assets	5,556,426	10,142,194
Restricted	2,491,808	1,713,895
Unrestricted (deficit)	(37,398,701)	(42,304,701)
Total Net Position	**$ (29,350,467)**	**$ (30,448,612)**

The Statement of Activities presents changes in net position from operating results:

	2022	2021
Program Revenues		
Charges for services	$ 563,685	$ 431,116
Operating grants	15,068,566	13,031,955
General Revenues		
Property taxes	7,047,616	6,727,654
State school aid, unrestricted	17,928,215	17,047,091
Interest earnings	35,492	177,402
Other	1,235,166	1,340,864
Total Revenues	41,878,740	38,756,082
Expenses		
Instruction	19,303,207	21,178,843
Supporting services	13,371,426	14,205,193
Food service	1,514,253	1,442,971
Community services	373,863	349,319
Other	3,590,236	299,541
Interest on long-term debt	2,601,707	2,952,057
Depreciation – unallocated	25,903	23,389
Total Expenses	40,780,595	40,451,313
Change in net position	1,098,145	(1,695,231)
Net Position, Beginning of Year	(30,448,612)	(28,753,381)
Net Position, End of Year	**$ (29,350,467)**	**$ (30,448,612)**

Financial Analysis of the District as a Whole

The District's financial position is the product of many factors.

The District's total revenues increased to $41.9 million. Property taxes and unrestricted state aid accounted for most of the District's revenues, contributing about 59.6% of every dollar raised. Another 36% came from state and federal aid for specific programs and the remainder from fees charged for services, interest earnings, donations and miscellaneous sources.

The total cost of all programs and services increased 0.8% to $40.8 million. The District's expenses are predominantly related to instructing, caring for (pupil services) and transporting students (73.6%). The District's administrative and business activities accounted for 7.8% of total costs. Operation and maintenance expenses accounted for 9.2% of the total costs.

Total revenues exceeded expenses by $1,098,145, increasing total net position from a deficit of $30,448,612 at June 30, 2021, to a deficit of $29,350,467. Unrestricted net position increased by $4,906,000 to a deficit of $37,398,701 at June 30, 2022. The District's net pension liability, including deferred outflows and inflows of resources, decreased by $1,185,186 during the fiscal year. In addition, the District's net OPEB liability, including outflows and inflows of resources, decreased by $2,324,493 during the fiscal year.

Fund Financial Statements

The *fund financial statements* provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

The District utilizes two kinds of funds:

- *Governmental funds*: Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, additional information following the governmental funds' statements explain the relationship (or differences) between them.

- *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others, such as Custodial Funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the district-wide financial statements because it cannot use these assets to finance its operations.

Financial Analysis of the District's Funds

The District uses funds to record and analyze financial information. Sparta Area School's funds are described as follows:

Major Fund

General Fund

The General Fund is the District's primary operating fund. The General Fund had total revenues of $34,216,093, total other financing sources of $82,344, and total expenditures of $32,901,728. It ended the fiscal year with a fund balance of $8,259,313, up from $6,862,604 as of June 30, 2021. The increase in fund balance of $1,396,709 can be related to a number of factors which include:

- Enrollment trends continue to decline across the state, with Sparta seeing the same trend. Our pupil count was down nearly 30 students from 2020-21 to 2021-2022. While we have seen a declining enrollment trend, we have seen an influx of federal funding to support districts in combating COVID.

- Revenues increased overall by approximately $2.7 million, with increases in property tax revenue, state, and federal sources. Notable changes include a $1.9 million increase in state aid revenue, and a $451,982 increase in federal revenue related to ESSER funding.

- Expenditures increased by approximately $2.5 million. The increase is attributed primarily to the decrease in total instruction of approximately $784,255 and supporting services of $1,753,241.

Construction Fund
The 2019 Construction Capital Projects Fund accounts for bond proceeds to be used for voter approved capital improvement projects. During the fiscal year, earnings on investments and deposits and other local sources totaled $44,292 and total construction-related expenditures were $2,928,963. The fund balance at year end was $1,660,942 and is to be used for facilities improvement projects in subsequent fiscal years.

Nonmajor Funds

Special Revenue Fund
The District operates two Special Revenue Funds: the Food Service Fund and the Student/School Activity Fund. Total revenues for the Food Service Fund were $2,035,785 and total expenditures were $1,615,727. The ending fund balance was $1,217,239, up from $797,181 at June 30, 2021. Total revenues for the Student/School Activity Fund were $293,151, and total expenditures were $265,058. The ending fund balance was $287,058, up from $258,965 at June 30, 2021.

Debt Service Funds
The District operates five Debt Service Funds. Total revenues were $4,139,091, total financing sources of $23,674,000, total expenditures were $8,570,292, and total other financing uses of $19,291,971. The ending fund balances in the Debt Service Funds totaled $67,978, down from $117,150 at June 30, 2021.

Capital Projects Fund
There are two nonmajor Capital Projects Fund, the Building and Site Sinking Fund and the 2016 Construction Fund. Total revenues in the Building and Site Sinking Fund were $683,096 and total expenditures were $366,746. The ending fund balance was $1,369,365, up from $1,053,015 at June 30, 2021. The 2016 Construction Capital Projects Fund accounts for bond proceeds to be used for voter approved capital improvement projects. During the fiscal year, earnings on investments totaled $1,273, while construction-related expenditures and other financing uses were $97,844. The fund balance at year end was $287,217 and is to be used for facilities improvement projects in subsequent fiscal years.

Fiduciary Fund
The District operates a Custodial Fund for the benefit of organizations outside of the District. Balances on hand at June 30, 2022 totaled $834.

General Fund Budgetary Highlights

The District amended the budget several times during the school year to be in compliance with the Uniform Budgeting Act, as well as ensure our budget was as accurate as it could be at that time.

From the original budget assumptions, overall revenues increased by $2,509,554 Notable factors that affected that variance can be attributed to the following highlighted areas but primarily as a result of state and federal funding.

Local Sources: There was a slight increase in local funding, $40,675 that can be attributed to increase property taxes, as well as miscellaneous revenues from grants and other sources.

State Sources: State sources increased by $1,692,300. The original budget took into account a per pupil increase of $300 and the district received $589 increase per pupil. The state budget was not finalized prior to preparing the budget, so assumptions were made based on data that was available. The district also received additional mental health support funds from the state.

Federal Sources: Federal sources increased by $996,828 which can be attributed to Federal ESSER money that was spent to help address learning loss. The district also saw increased rounds of COVID funding in childcare and other sources.

Interdistrict Sources: The interdistrict revenues increased as there was a round of ARP IDEA funding (Federal ESSER) that was not a part of the original budget as well as reimbursed Medicaid caring costs.

Other Financing Sources: This category recorded the additional half of the sale of the old football area to Tesa tape.

Expenditures: Overall, actual expenditures exceeded the original budget by $1,116,614, The majority of increases was due to adding staff due to the pandemic. Basic programs, and pupil services had the largest change and added the most staff. We also saw an increase in expenditures for tech services as we purchased staff laptops and chrome books. Business services saw a decrease as there was turnover, and staff openings for part of the year. A change in accountant and director of finance. School administration had an increase due to the addition of two elementary assistant principals.

Capital Asset and Debt Administration

Capital Assets

By the end of 2022, the District had invested $107.1 million in a broad range of capital assets, including land, school buildings, athletic facilities, computer equipment, school buses, administrative offices, right to use assets, and construction in progress. This amount represents a decrease of $25,278 in net book value from June 30, 2021. More detailed information about capital assets can be found in Note E in the Notes to Basic Financial Statements.

The net book value of District assets at June 30, 2022 are as follows:

Land	$ 1,944,335
Buildings and improvements	77,392,962
Furniture and equipment	694,073
Vehicles	116,725
Right of use assets	21,393
Construction in progress	1,316,275
Net Capital Assets	$ 81,485,763

Long-term Debt

At year end, the District had $78.4 million in general obligation bonds and other long-term debt outstanding – an increase of $1,547,400 from June 30, 2021.

- During the current year the District repaid $3,102,000 of the outstanding balance and borrowed $1,088,253 of State School Bond Loan Funds.
- The District continued to pay down its debt, retiring $18,555,000 of outstanding bonds.
- The District sold bonds during the fiscal year to advance refund bonds sold in 2016.
- The District's bond rating for general obligation debt was affirmed by Standard and Poor's as A+ with a stable outlook. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within a District's boundaries.
- The District's other obligations include accumulated sick leave. We present more detailed information about our long-term liabilities in Note F to the Notes to Basic Financial Statements.

Factors Bearing on the District's Future

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

- Once again, the COVID-19 pandemic has created a very fluid financial situation for school districts across the nation, raising the cost of providing instruction, while making it difficult to forecast future funding levels. During 21/22 school year, the district offered some virtual instruction as well as in person instruction. To date, the state's economic recovery from the COVID-19 shutdown has been significantly better than originally predicted. Future funding levels will depend heavily on the ability of the economy to sustain the recovery.

- The District's contract with the SESPA union group was settled for three years. The District recently entered into a three-year contract with the SEA union group.

- As long as a majority of our funding comes to us on a per-pupil funding basis, this will always be a large, unknown factor that may impact our financial health. Since we do not know enrollment until after our budgets are completed, it's difficult to accurately estimate the impact this will have on the budget. The state budget was also not finalized until after the 21/22 budget was finalized. The fiscal year 2021-2022 budget was adopted using the best information the District had at the time. The COVID-19 pandemic continues to add to the difficulty of predicting future enrollment.

- In May 2017, voters in Kent County approved the regional enhancement millage that provides approximately $242 per pupil. This is an additional revenue stream for the district that will greatly enhance the education delivery for our students and remove some financial stress from our system. The District will receive approximately $636,170 in fiscal year 2021-22.

- The District's sinking fund millage was renewed for 10 year in November of 2019. On an annual basis, the sinking fund generates approximately $650,000 of tax revenue, which is used for major repairs and renovations of the District's facilities.

- Since the COVID 19 pandemic, the district has been utilizing federal revenue sources to help with added costs of instruction. The district has drawn down a large portion of CARES/ESSER funds over the past couple of years, with some ESSER II funds and ESSER III funds remaining to be spent.

- The District is entering the completion phase of a multi-year construction and renovation project. As the projects conclude, properties no longer in use may be sold, generating one-time revenue.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Superintendent's Office, Sparta Area Schools, 465 S. Union Street, Sparta, Michigan 49345.

BASIC FINANCIAL STATEMENTS

SPARTA AREA SCHOOLS
Statement of Net Position
June 30, 2022

	Governmental Activities
Assets	
Cash equivalents and investments (Note B)	$ 11,486,365
Accounts receivable	115,775
Due from other governmental units (Note C)	5,755,872
Inventory	44,434
Prepaid expenses	5,566
Capital assets not being depreciated (Note E)	3,260,610
Capital assets being depreciated/amortized, net (Note E)	78,225,153
Total Assets	98,893,775
Deferred Outflows of Resources	
Loss on advance bond refundings, net	184,779
Deferred pension amounts	7,278,945
Deferred OPEB amounts	2,925,058
Total Deferred Outflows of Resources	10,388,782
Liabilities	
Accounts payable	523,251
Due to other governmental units (Note C)	663,216
Accrued interest payable	449,832
Payroll related accruals	552,168
Salaries payable	1,714,058
Unearned revenue	806,207
Long-term liabilities (Note F):	
Due within one year	3,259,008
Due in more than one year	75,125,906
Net pension liability	33,824,240
Net OPEB liability	2,175,807
Total Liabilities	119,093,693
Deferred Inflows of Resources	
Deferred pension amounts	11,300,186
Deferred OPEB amounts	8,239,145
Total Deferred Inflows of Resources	19,539,331
Net Position	
Net investment in capital assets	5,556,426
Restricted for:	
Capital projects	1,369,365
Debt service	(381,854)
Food service	1,217,239
Student/School activities	287,058
Unrestricted (deficit)	(37,398,701)
Total Net Position	$ (29,350,467)

See accompanying notes to basic financial statements.

SPARTA AREA SCHOOLS
Statement of Activities
For the year ended June 30, 2022

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants	Net (Expense) Revenue and Changes In Net Position
Governmental Activities				
Instruction	$ 19,303,207	$ 4,696	$ 11,047,267	$ (8,251,244)
Supporting services	13,371,426	135,364	1,947,898	(11,288,164)
Food service	1,514,253	69,568	1,963,484	518,799
Community services	373,863	354,057	-	(19,806)
Other	3,590,236	-	-	(3,590,236)
Interest on long-term debt	2,601,707	-	109,917	(2,491,790)
Depreciation - unallocated*	25,903	-	-	(25,903)
Total Governmental Activities	$ 40,780,595	$ 563,685	$ 15,068,566	(25,148,344)
General Revenues				
Taxes:				
Property taxes, levied for general operations				2,342,082
Property taxes, levied for debt service				4,041,562
Property taxes, levied for capital improvements				663,972
State school aid, unrestricted				17,928,215
Interest and investment earnings				35,492
Other				1,235,166
Total General Revenues				26,246,489
Change in Net Position				1,098,145
Net Position - Beginning of Year				(30,448,612)
Net Position - End of Year				$ (29,350,467)

*This amount excludes direct depreciation expenses of the various programs.

See accompanying notes to basic financial statements.

SPARTA AREA SCHOOLS
Balance Sheet
Governmental Funds
June 30, 2022

	General	2019 Construction	Nonmajor	Total
Assets				
Cash equivalents and investments (Note B)	$ 6,249,197	$ 1,928,609	$ 3,308,559	$ 11,486,365
Accounts receivable	115,775	-	-	115,775
Due from other funds (Note D)	25,879	-	32,976	58,855
Due from other governmental units (Note C)	5,695,760	-	60,112	5,755,872
Inventory	22,028	-	22,406	44,434
Prepaid expenditures	5,566	-	-	5,566
Total Assets	$ 12,114,205	$ 1,928,609	$ 3,424,053	$ 17,466,867
Liabilities and Fund Balances				
Liabilities				
Accounts payable	$ 162,132	$ 267,667	$ 93,452	$ 523,251
Due to other funds (Note D)	22,973	-	35,882	58,855
Due to other governmental units	663,216	-	-	663,216
Payroll related accruals	552,168	-	-	552,168
Salaries payable	1,714,058	-	-	1,714,058
Unearned revenue	740,345	-	65,862	806,207
Total Liabilities	3,854,892	267,667	195,196	4,317,755
Fund Balances (Note A)				
Nonspendable	27,594	-	22,406	50,000
Restricted	-	1,660,942	3,206,451	4,867,393
Unassigned	8,231,719	-	-	8,231,719
Total Fund Balances	8,259,313	1,660,942	3,228,857	13,149,112
Total Liabilities and Fund Balances	$ 12,114,205	$ 1,928,609	$ 3,424,053	$ 17,466,867

See accompanying notes to basic financial statements.

SPARTA AREA SCHOOLS
Reconciliation of Total Governmental Fund Balances to
Net Position of Governmental Activities
June 30, 2022

Total governmental fund balances		$ 13,149,112
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 as assets in governmental funds. The cost of assets is $107,114,597 and accumulated depreciation/amortization is $25,628,834.		81,485,763
Bond refunding losses are not expensed but are amortized over the life of the new bond issue.		184,779
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:		
General obligation bonds	$ (69,540,000)	
Bond premium	(7,422,614)	
State school bond loan fund	(1,077,412)	
Lease liabilities	(22,249)	
Accumulated sick leave	(322,639)	(78,384,914)
Accrued interest is not included as a liability in governmental funds.		(449,832)
Net pension liability and related deferred outflows/inflows of resources are not included as assets/liabilities in governmental funds:		
Net pension liability	(33,824,240)	
Deferred outflows	7,278,945	
Deferred inflows	(11,300,186)	(37,845,481)
Net OPEB liability and related deferred outflows/inflows of resources are not included as assets/liabilities in governmental funds:		
Net OPEB liability	(2,175,807)	
Deferred outflows	2,925,058	
Deferred inflows	(8,239,145)	(7,489,894)
Total net position - governmental activities		$ (29,350,467)

See accompanying notes to basic financial statements.

SPARTA AREA SCHOOLS
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2022

	General	2019 Construction	Nonmajor	Total
Revenues				
Local sources	$ 3,292,713	$ 44,292	$ 5,078,995	$ 8,416,000
State sources	24,537,602	-	162,142	24,699,744
Federal sources	3,575,523	-	1,911,259	5,486,782
Interdistrict sources	2,810,255	-	-	2,810,255
Total Revenues	34,216,093	44,292	7,152,396	41,412,781
Expenditures				
Current:				
Instruction	19,617,550	-	-	19,617,550
Supporting services	12,606,185	-	265,058	12,871,243
Food service	-	-	1,615,727	1,615,727
Community services	406,841	-	-	406,841
Capital outlay	245,895	2,928,963	464,590	3,639,448
Debt service:				
Principal repayment	22,482	-	5,717,000	5,739,482
Interest and fiscal charges	2,775	-	2,647,263	2,650,038
Bond issuance costs	-	-	133,709	133,709
Underwriter's discount	-	-	72,320	72,320
Total Expenditures	32,901,728	2,928,963	10,915,667	46,746,358
Excess (Deficiency) of Revenues Over Expenditures	1,314,365	(2,884,671)	(3,763,271)	(5,333,577)
Other Financing Sources (Uses)				
Proceeds from sale of capital assets	82,344	-	-	82,344
Proceeds from school bond loan fund	-	-	1,074,000	1,074,000
Proceeds from refinancing debt	-	-	22,600,000	22,600,000
Payments to bond escrow agent	-	-	(19,291,971)	(19,291,971)
Total Other Financing Sources (Uses)	82,344	-	4,382,029	4,464,373
Net Change in Fund Balances	1,396,709	(2,884,671)	618,758	(869,204)
Fund Balances, Beginning of Year	6,862,604	4,545,613	2,610,099	14,018,316
Fund Balances, End of Year	$ 8,259,313	$ 1,660,942	$ 3,228,857	$ 13,149,112

See accompanying notes to basic financial statements.

SPARTA AREA SCHOOLS
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the year ended June 30, 2022

Net change in fund balances - total governmental funds		$ (869,204)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of these assets is capitalized and allocated over their estimated useful lives as depreciation/amortization. expense. This is the amount by which capital outlays exceeded depreciation and amortization in the current period:		
Capital outlays	$ 2,365,648	
Depreciation/amortization expense	(2,312,782)	52,866
In the Statement of Activities, only the loss on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale(s) increase financial resources. Thus, the change in net position differs from the change in fund balance by the net book value of the assets sold/retired.		(78,144)
Proceeds from leases and the sale of bonds or loans are other financing sources in the governmental funds, but increase long-term liabilities in the Statement of Net Position.		
State school bond loan	$ (1,088,253)	
General obligation bonds	(22,600,000)	(23,688,253)
Bond refunding losses are amortized over the life of the new bond issue on the Statement of Activities.		(32,236)
Bond premium is amortized over the life of the new bond issue on the Statement of Activities.		461,759
Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities:		
Repayment of general obligation bonds	$ 18,555,000	
Repayment of school bond loan fund	3,102,000	
Repayment of lease liabilities	22,482	21,679,482
Interest on long-term liabilities in the Statement of Activities differs from the amount reported on the governmental funds because interest is recorded as an expenditure in the funds when it is due and paid, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues regardless of when it is paid.		62,584

Continued on next page.

SPARTA AREA SCHOOLS
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the year ended June 30, 2022

In the Statement of Net Position, accumulated sick leave is measured by the amounts earned during the year. In the governmental funds, however, expenditures are measured by the amount of financial resources used (essentially, the amounts actually paid). This year the amount of these benefits earned ($61,403) exceeded the amounts used/paid ($61,015).	$ (388)
The changes in net pension liability and related deferred outflows/inflows of resources are not included as revenues/expenditures in governmental funds.	1,185,186
The changes in net OPEB and related deferred outflows/inflows of resources are not included as revenues/expenditures in governmental funds.	2,324,493
Total change in net position - governmental activities	$ 1,098,145

See accompanying notes to basic financial statements.

SPARTA AREA SCHOOLS
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2022

	Budgeted Amounts			Variance With
	Original	Final	Actual	Final Budget
Revenues				
Local sources	$ 3,252,038	$ 3,440,000	$ 3,292,713	$ (147,287)
State sources	22,845,302	24,300,000	24,537,602	237,602
Federal sources	2,578,694	3,500,000	3,575,523	75,523
Interdistrict sources	3,030,505	3,000,000	2,810,255	(189,745)
Total Revenues	31,706,539	34,240,000	34,216,093	(23,907)
Expenditures				
Current:				
Instruction:				
Basic programs	14,799,557	15,245,000	15,008,790	236,210
Added needs	4,212,873	4,025,000	4,119,958	(94,958)
Adult education services	512,704	505,000	488,802	16,198
Supporting services:				
Pupil services	2,336,063	2,830,000	2,764,883	65,117
Instructional staff services	663,996	800,000	757,881	42,119
General administrative services	444,557	470,000	444,481	25,519
School administrative services	1,526,354	1,650,000	1,644,202	5,798
Business services	616,543	530,000	479,253	50,747
Operation and maintenance services	2,612,077	2,950,000	3,024,336	(74,336)
Pupil transportation services	1,941,546	1,975,000	1,835,876	139,124
Central services	778,300	990,000	1,022,004	(32,004)
Other supporting services	586,190	650,000	633,269	16,731
Community services	419,354	450,000	406,841	43,159
Capital outlays	325,000	230,000	245,895	(15,895)
Debt service:				
Principal repayments	8,500	8,500	22,482	(13,982)
Interest and fiscal charges	1,500	1,500	2,775	(1,275)
Total Expenditures	31,785,114	33,310,000	32,901,728	408,272
Excess (Deficiency) of Revenues Over Expenditures	(78,575)	930,000	1,314,365	384,365
Other Financing Sources				
Proceeds from sale of capital assets	78,575	-	82,344	(82,344)
Net Change in Fund Balances	-	930,000	1,396,709	302,021
Fund Balances, Beginning of Year	6,862,604	6,862,604	6,862,604	-
Fund Balances, End of Year	$ 6,862,604	$ 7,792,604	$ 8,259,313	$ 302,021

See accompanying notes to basic financial statements.

SPARTA AREA SCHOOLS
Fiduciary Fund
Statement of Fiduciary Net Position
June 30, 2022

	Custodial Funds
Assets	
Cash equivalents and investments (Note B)	$ 834
Liabilities	-
Net Position	
Restricted for:	
Individuals and organizations	$ 834

See accompanying notes to basic financial statements.

SPARTA AREA SCHOOLS
Fiduciary Funds
Statement of Changes in Fiduciary Net Position
For the year ended June 30, 2022

	Custodial Funds
Additions	
Contributions:	
Members	$ 1,881
Deductions	
Distributions to members	8,420
Net Decrease in Fiduciary Net Position	(6,539)
Net Position, Beginning of Year	7,373
Net Position, End of Year	$ 834

See accompanying notes to basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

Note A – Summary of Significant Accounting Policies

Sparta Area Schools (the "District") was organized under the School Code of the State of Michigan and services a population of approximately 2,426 students. The District is governed by an elected Board of Education consisting of seven members and administered by a Superintendent who is appointed by the aforementioned Board. The District provides a comprehensive range of educational services as specified by state statute and Board of Education policy. These services include elementary education, secondary education, pre-school programs, athletic activities, special education, community services and general administrative services. The Board of Education also has broad financial responsibilities, including the approval of the annual budget and the establishment of a system of accounting and budgetary controls.

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to school districts. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The District's significant accounting policies are described below.

1. Reporting Entity

The financial reporting entity consists of a primary government and its component units. The District is a primary government because it is a special-purpose government that has a separately elected governing body, is legally separate and is fiscally independent of other state or local governments. Furthermore, there are no component units combined with the District for financial statement presentation purposes, and the District is not included in any other governmental reporting entity. Consequently, the District's financial statements include the funds of those organizational entities for which its elected governing board is financially accountable.

2. District-wide and Fund Financial Statements

District-wide Financial Statements - The district-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) present financial information about the District as a whole. The reported information includes all of the nonfiduciary activities of the District. The District does not allocate indirect costs and, for the most part, the effect of interfund activity has been removed. These statements are to distinguish between the *governmental* and *business-type activities* of the District. *Governmental activities* normally are supported by taxes and intergovernmental revenues, and are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District does not have any *business-type activities*.

The Statement of Net Position is reported on the full accrual, economic resources basis, which recognizes all long-term assets as well as all long-term debt and obligations. The District's net position is reported in three parts: investment in capital assets, net of related debt; restricted net position, and unrestricted net position.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *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 and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Property taxes, unrestricted state aid, interest earnings and other items not included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. The General Fund and the 2019 Construction Capital Projects Fund are the District's major funds. Nonmajor funds are aggregated and presented in a single column.

Fund Financial Statements – Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Fund level statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances. The Balance Sheet reports current assets, current liabilities and fund balances. The Statement of Revenues, Expenditures and Changes in Fund Balances reports on the sources and uses of current financial resources. This differs from the economic resources measurement focus used to report at the district-wide level. Reconciliations between the two sets of statements are provided in separate statements.

Revenues are recognized when susceptible to accrual; i.e., both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days after the end of the current fiscal period. Expenditures are generally recorded when the liability is incurred if they are paid within 60 days after the end of the current fiscal period. The exception to this general rule is that principal and interest on long-term debt is recognized when due.

Revenues susceptible to accrual are property taxes, state aid, federal and interdistrict revenues and investment income. Other revenues are recognized when received. Unearned revenue arises when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. Unearned revenue also arises when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incurrence of the qualifying expenditures.

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation

District-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as is the fiduciary fund financial statement. 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 grantor or provider have been met.

The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The State portion of the foundation allowance is provided from the State's School Aid Fund and is recognized as revenues in accordance with state law and accounting principles generally accepted in the United States of America.

Governmental Funds

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use, and balances of a school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

General Fund—The General Fund is the general operating fund of a school district. It is used to account for all financial resources, except those required to be accounted for in another fund. Included are all transactions related to the current operating budget.

Special Revenue Funds—Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

School Service Funds—School Service Funds are used to segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. A school district maintains full control of these funds. The School Service Funds maintained by the District are the Food Service and Student/School Activity Special Revenue Funds.

Debt Service Funds—Debt Service Funds are used to account for the accumulation of resources for, and the payment of, long-term debt (bonds, notes, loans, leases and school bond loan) principal, interest, and related costs.

Capital Projects Funds—Capital Projects Funds are used to record bond proceeds, property tax revenues or other revenues and the disbursement of monies specifically designated for acquiring new school sites, buildings, equipment and for major remodeling and repairs. The funds are retained until the purpose for which the funds were created has been accomplished.

The Capital Projects Funds include capital project activities funded with bonds issued after May 1, 1994. For these projects, the District has complied with the applicable provisions of Section 1351a of the State of Michigan's School Code. The Capital Projects Funds also include capital project activities funded with sinking fund millage. The District has complied with the applicable provisions of Section 1212 (I) of the Revised School Code and the State of Michigan Department of Treasury Letter No. 01-95.

Fiduciary Funds

Fiduciary Funds are used to account for assets held by a school district in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds.

Custodial Funds—The Custodial Fund accounts for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, and/or other governmental units. The District maintains funds held for the benefit of student/school groups.

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

4. Budgets and Budgetary Accounting

State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act) requires that the General Fund of a school district be under budgetary control and that both budgeted and actual financial results do not incur a deficit. Sparta Area Schools has also adopted budgets for its Special Revenue Funds. A school district's General Appropriations Act (the "budget") must be adopted before the beginning of each fiscal year. No violations (dollar deviations) from a district's budget may occur without a corresponding amendment to the budget. A school district has the ability to amend the budget provided that the amendment is prior to the occurrence of the deviation and prior to the fiscal year end. A school district may also permit the chief administrative or fiscal officer to execute transfers between line items, within defined dollar or percentage limits, without prior approval of the Board of Education. Expenditures may not legally exceed budgeted appropriations at the function level. All appropriations lapse at the end of the fiscal year.

Sparta Area Schools utilizes the following procedures in establishing the budgetary data reflected in the financial statements:

- Starting in the spring, District administrative personnel and department heads work with the Superintendent to establish proposed operating budgets for the fiscal year commencing the following July 1.

- In June, preliminary operating budgets are submitted to the Board of Education. These budgets include proposed expenditures and the means of financing them.

- Prior to June 30, a public hearing is held to obtain taxpayer comments on the proposed budgets.

- After the budgets are finalized, the Board of Education adopts an appropriations resolution setting forth the amount of the proposed expenditures and the sources of revenue to finance them.

- The original General and Special Revenue Funds budgets were amended during the year in compliance with State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act).

- Budgets for the General and Special Revenue Funds were adopted on the modified accrual basis of accounting, which is consistent with accounting principles generally accepted in the United States of America.

5. Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budget integration in the governmental funds. There were no substantial encumbrances outstanding at year end.

6. Investments

Investments are recorded at fair value. Investment income is composed of interest and net changes in the fair value of applicable investments.

7. Inventories/Prepaid Items

Inventories are valued at cost (first-in, first-out), and are accounted for using the consumption method. Inventories of the General Fund consist of teaching and custodial supplies, while inventories of the Food Service Fund consist of food, and other nonperishable supplies. Disbursements for inventory-type items are recorded as expenditures at the time of use for each fund. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the district-wide and fund financial statements. The cost of prepaid items is recorded as expenses/expenditures when consumed rather than when purchased.

8. Capital Assets

Capital assets, which include land, buildings and improvements, vehicles, furniture and equipment, and right to use assets, are reported in the district-wide financial statements. Assets having a useful life in excess of one year and whose costs exceed $5,000 are capitalized. Capital assets are stated at historical cost or estimated historical cost where actual cost information is not available. Donated capital assets are stated at fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's useful life are not capitalized. Improvements are capitalized and depreciated over the remaining useful life of the related assets.

Buildings and improvements, furniture and equipment, and vehicles are depreciated and amortized using the straight-line method over the following estimated useful lives:

Buildings and improvements	40 - 50 years
Furniture and equipment	3 - 10 years
Vehicles	5 - 10 years

The intangible right to use asset is amortized over the term of the lease.

9. Long-term Obligations

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported at the total amount of bonds issued.

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 issuance are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

10. Accumulated Sick Leave

Accumulated sick leave at June 30, 2022 has been computed and recorded in the basic financial statements of the District. Employees who leave the District are entitled to reimbursement for a portion of their unused sick days. At June 30, 2022, the accumulated liabilities, including salary related payments, (expected to be financed by General Fund revenues) for accumulated sick leave amounted to $322,639.

11. Retirement Plan

Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions,* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, were implemented by the District during the fiscal year ended June 30, 2015. These Statements establish standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit pensions, the Statements identify the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about pensions also are addressed. Distinctions are made regarding the particular requirements for employers based on the number of employers whose employees are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared. Cost sharing employers are those whose employees are provided with defined benefit pensions through cost-sharing multiple-employer pension plans – pension plans in which the pension obligations to the employees of more than one employer are pooled and plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the pension plan.

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

12. Postemployment Benefits Other than Pensions

Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, was implemented by the District during the fiscal year ended June 30, 2018. This Statement establishes standards for recognizing and measuring (OPEB) liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB plans, the Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about OPEB are also addressed. Distinctions are made regarding the particular requirements depending upon whether the OPEB plans through which the benefits are provided are administered through trusts that meet specific criteria. Cost-sharing employers are those whose employees are provided with defined benefit OPEB through cost-sharing multiple-employer OPEB plans—OPEB plans in which the OPEB obligations to the employees of more than one employer are pooled and plan assets can be used to pay the benefits of the employees of any employer that provides OPEB through the OPEB plan.

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

13. 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 future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District has three such items that qualify for reporting in this category: the deferred charge on a previous year's bond refunding, the deferred outflows of resources relating to the recognition of net pension liability on the financial statements and the deferred outflows of resources relating to the recognition of net OPEB liability on the financial statements.

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 future period(s) and so will *not* be recognized as in inflow of resources (revenue) until that time. The District has two types of items that qualify for reporting in this category: the deferred inflows of resources relating to the recognition of net pension liability on the financial statements and the deferred inflows of resources relating to the recognition of net OPEB liability on the financial statements.

14. Net Position

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net investment in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition or construction of those assets. Net position is reported as restricted when there are limitations imposed on their use either through legislation or through external restrictions imposed by creditors, grantors, laws or regulations from other governments.

15. Fund Balances

The District has adopted Governmental Accounting Standards Board (GASB) Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*. The stated objective of GASB Statement No. 54 is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds, detailed as follows:

- Nonspendable – resources that cannot be spent because they are either (a) not in spendable form (inventories and prepaid amounts) or (b) legally or contractually required to be maintained intact (the principal of a permanent fund).

- Restricted – resources that cannot be spent because of (a) constraints externally imposed by creditors (debt covenants), grantors, contributors, or laws or regulations or (b) imposed by law through constitutional provisions or enabling legislation and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation.

- Committed – resources that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority (Board of Education). Those committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. Committed fund balance does not lapse at year end.

- Assigned – resources that are constrained by the government's *intent* to be used for specific purposes, but are neither restricted nor committed. Intent should be expressed by (a) the governing body itself or (b) a body or official to which the governing body has designated the authority to assign amounts to be used for specific purposes. Sparta Area Schools' Board of Education has delegated authority to assign fund balances for a specific purpose to the Superintendent or his designee. Assigned fund balance does not lapse at year end.

- Unassigned – unassigned fund balance is the residual classification for the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. The General Fund should be the only fund that reports a positive unassigned fund balance amount.

Sparta Area Schools has established a policy for its use of unrestricted fund balance amounts, and the District considers that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

The District's Unassigned General Fund Balance will be maintained to provide the District with sufficient working capital and a margin of safety to address local and regional emergencies without unnecessary borrowing. The Unassigned General Fund Balance may only be appropriated by resolution of the Board of Education. It is recognized that it will not always be possible to avoid borrowing to provide cash flow.

The Board recognizes that good fiscal management comprises the foundational support of the entire District. To make that support as effective as possible, the Board intends to maintain a fund balance of 10% of the District General Fund annual operating expenditures.

16. Interfund Activity

Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers between governmental funds are eliminated in the Statement of Activities. Interfund transfers in the fund financial statements are reported as other financing sources/uses.

17. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Note B – Cash Equivalents and Investments

The State of Michigan allows a political subdivision to authorize its Treasurer or other chief fiscal officer to invest surplus funds belonging to and under the control of the entity as follows:

- 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.

- Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution is a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and that maintains a principal office or branch office located in this State under the laws of this State or the United States.

- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of the purchase.

- Securities issued or guaranteed by agencies or instrumentalities of the United States government.

- United States government or Federal agency obligation repurchase agreements.

- Banker's acceptances issued by a bank that is a member of the Federal Deposit Insurance Corporation.

- Mutual funds composed entirely of investment vehicles which are legal for direct investment by a school district in Michigan.

- Investment pools, as authorized by the surplus funds investment pool act, Act No. 367 of the Public Acts of 1982, being sections 129.11 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a school district in Michigan.

Balances at June 30, 2022 related to cash equivalents are detailed in the Basic Financial Statements as follows:

Statement of Net Position:	
Governmental activities	$ 11,486,365
Fiduciary Fund:	
Custodial Fund	834
	$ 11,487,199

Cash Equivalents

Depositories actively used by the District during the year are detailed as follows:

1. Choice One Bank

Cash equivalents consist of bank interest earning Checking NOW Unlimited Public accounts.

June 30, 2022 balances are detailed as follows:

Cash equivalents	$ 9,121,224

Custodial Credit Risk Related to Bank Deposits
Custodial credit risk is the risk that in the event of bank failure, the District's deposits may not be returned to the District. Protection of District cash equivalents is provided by the Federal Deposit Insurance Corporation. At year end, the carrying amount of the District's cash equivalents was $9,121,224 and the bank balance was $9,604,295. Of the bank balance, $327,966 was covered by federal depository insurance and $9,276,329 was uninsured and uncollateralized.

Investments

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

Surplus Funds Investment Pool Account:	
Michigan Liquid Asset Fund Plus (MILAF+) – Cash Management Class	$ 48,566
Michigan Liquid Asset Fund Plus (MILAF+) – MAX Class	2,317,379
	$ 2,365,975

The Michigan Liquid Asset Fund Plus (MILAF+) is an external pooled investment fund that includes qualified investments in accordance with the applicable sections of the School Code. MILAF is not regulated or registered with the Securities Exchange Commission and reported the same value of the pool shares as the fair value of the District's investments at June 30, 2022. The MILAF+ is carried at amortized cost and is rated AAAm by Standard & Poor's rating agency. The MILAF+ MAX Class requires a 14-day redemption notice.

Custodial Credit Risk Related to Investments
Custodial credit risk is the risk that, in the event of a failure of the counterparty, the District may not be able to recover the value of its investments of collateral securities that are in the possession of an outside party. The District will minimize custodial credit risk by limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business. At June 30, 2022, the District had no investments that were subject to custodial credit risk.

Credit Risk
Credit risk is the risk that an issuer or other counterparty in an investment will not fulfill its obligation. The District's investment policy does not specifically address credit risk, but minimizes its credit risk by limiting investments to the types allowed by the State.

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

Concentration of Credit Risk
The District minimizes concentration of credit risk which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. The District's investment policy places no restrictions on the amount or percentage that may be invested in any one type of security.

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

Note C – State School Aid/Property Taxes

On March 15, 1994, the voters of the State of Michigan approved Proposal A, which increased the State Sales and Use Tax rates from 4% to 6% and established a State Education Tax at a rate of 6 mills on all property, except that which is exempt by law from ad valorem property taxes, and dedicated the additional revenues generated to Michigan school districts.

These additional State revenues pass through to Michigan school districts in the form of a per pupil "Foundation Allowance" paid on a "blended count" of District pupil membership in February 2021 and October 2021. The 2021-22 "Foundation Allowance" for Sparta Area Schools was $8,700 for 2,424 "Full Time Equivalent" students, generating $23,558,705 in state aid payments to the District, of which $4,223,751 was paid to the District in July and August 2022 and included in "Due From Other Governmental Units" of the General Fund and Food Service Special Revenue Fund of the District.

Property taxes for the District are levied July 1 and December 1 (the tax lien dates) under a split-levy system by the Townships of Algoma, Alpine, Tyrone, Chester, Wright, and Sparta, and are due 75 days after the levy date. The taxes are then collected by each governmental unit and remitted to the District. The Counties of Kent and Ottawa, through its Delinquent Tax Revolving Fund, advances all delinquent real property taxes at March 1 to the District each year prior to June 30.

Section 1211(1) of 1993 PA 312 states that beginning in 1994, the board of a school district shall levy not more than 18 mills, if approved by voters, for school operating purposes, or the number of mills levied in 1993, whichever is less, on non-homestead property only, in order to be eligible to receive funds under the State School Aid Act of 1979. After 1996, electors may approve a 3 mill “Local Enhancement Millage” which must be shared between all local districts in each respective county intermediate district.

Sparta Area Schools’ electors previously approved a ten year operating millage extension in August 2014 for the 18 mill non-homestead property tax.

The District levied 7.00 mills in 2021 for debt service purposes, and 1.15 mills for the building and site (sinking) fund, applied on all taxable property in the District.

Taxable property in the District is assessed initially at 50% of true cash value by the assessing officials of the various units of government that comprise the District. These valuations are then equalized by the county and finally by the State of Michigan, generating the State Equalized Valuation. Taxable valuation increases will be limited, or capped (known as capped valuation), at 5% or the rate of inflation, whichever is less. With the implementation of Proposal A and Public Act 36, taxable property is now divided into two categories: PRE and NPRE.

A principal residence exemption property (PRE) is exempt from the 18 mill "School Operating" tax. It is not exempt from the 6 mill "State Education" tax, any voted “Local Enhancement Millage” nor any additional voted millage for the retirement of debt.

Non-principal residence exemption property (NPRE) is subject to all District levies. However, since Public Act 36, establishing the Michigan Business Tax, was signed into law, Public Acts 37-40 of 2007 now exempt Industrial Personal Property from the 6 mill State Education Tax and up to 18 mills of local school district operating millage (includes property under Industrial Facilities Tax); and exempt Commercial Personal Property from up to 12 mills of local school district operating millage (exceptions may apply).

The District is subject to tax abatements granted by the County of Kent with local businesses under the Plant Rehabilitation and Industrial Development Districts Act, (known as the Industrial Facilities Exemption) PA 198 of 1974, as amended, provides a tax incentive to manufacturers to enable renovation and expansion of aging facilities, assists in the building of new facilities, and promotes the establishment of high tech facilities. An Industrial Facilities Exemption (IFE) certificate entitles the facility to exemption from ad valorem real and/or personal property taxes for a term up to 12 years as determined by the local unit of government. The agreements entered into by each local unit include claw back provisions should the recipient of the tax abatement fail to fully meet its commitments, such as employment levels and timelines for relocation. The tax abated property taxes are calculated by applying half the local property tax millage rate on the total IFT taxable value. This amounts to a reduction in property tax revenue of approximately 50%.

For the year ended June 30, 2022, the District’s property tax revenues were reduced by approximately $210,519 under these agreements.

Note D – Interfund Receivables/Payables

Interfund receivables and payables at June 30, 2022 representing unreimbursed expenditures at year end are detailed as follows:

Major Fund	**Due From**	**Due To**
General Fund:		
Special Revenue Funds:		
Food Service Fund	$ 7,172	$ 21,973
Student/School Activity Fund	18,207	1,000
Debt Service Funds:		
2016 Debt Service	500	-
Total Major Fund	25,879	22,973
Nonmajor Funds		
Special Revenue Funds:		
Food Service Fund:		
General Fund	21,973	7,172
Student/School Activity Fund:		
General Fund	1,000	18,207
Debt Service Funds:		
2016 Debt Service:		
General Fund	-	500
Building and Site Fund	23	9,773
2016 Refunding Bond:		
Building and Site Fund	16	-
2017 Refunding Bond:		
Building and Site Fund	66	-
2019 Refunding Bond:		
Building and Site Fund	109	-
2021 Refunding Bond		
Building and Site Fund	16	-
Capital Projects Funds:		
Building and Site Fund:		
2016 Debt Service	9,773	23
2016 Refunding Bond	-	16
2017 Refunding Bond	-	66
2019 Refunding Bond	-	109
2021 Refunding Bond	-	16
Total Nonmajor Funds	32,976	35,882
Total All Funds	$ 58,855	$ 58,855

Note E – Capital Assets

	Balances July 1, 2021	Additions	Deductions	Adjustments	Balances June 30, 2022
Capital assets not being depreciated:					
Land	$ 2,022,479	$ -	$ 78,144	$ -	$ 1,944,335
Construction in progress	7,537,264	1,915,503	8,136,492	-	1,316,275
Total capital assets not being depreciated	9,559,743	$ 1,915,503	$ 8,214,636	$ -	3,260,610
Capital assets being depreciated and amortized:					
Buildings and improvements	91,827,203	$ 8,503,685	$ -	$ -	100,330,888
Furniture and equipment	3,016,810	82,952	12,000	(73,741)	3,014,021
Vehicles	522,697	-	87,360	-	435,337
Intangible right-of-use assets	-	-	-	73,741	73,741
Total capital assets being depreciated and amortized	95,366,710	$ 8,586,637	$ 99,360	$ -	103,853,987
Less accumulated depreciation for:					
Buildings and improvements	20,926,141	$ 2,011,785	$ -	$ -	22,937,926
Furniture and equipment	2,128,626	232,848	12,000	(29,526)	2,319,948
Vehicles	360,645	45,327	87,360	-	318,612
Less accumulated amortization for:					
Intangible right-of-use assets	-	22,822	-	29,526	52,348
Total accumulated depreciation and amortzation	23,415,412	$ 2,312,782	$ 99,360	$ -	25,628,834
Total capital assets being depreciated and amortized, net	71,951,298				78,225,153
Net Capital Assets	$81,511,041				$ 81,485,763

Depreciation expense was charged to District activities as follows:

Governmental activities:	
Instruction	$1,685,325
Supporting services	539,803
Food service	61,751
Unallocated	25,903
	$2,312,782

Note F – Long-term Obligations

Changes in long-term obligations for the year ended June 30, 2022 are summarized as follows:

	Debt Outstanding July 1, 2021	Debt Added	Debt Retired	Debt Outstanding June 30, 2022
General obligation bonds:				
June 7, 2016	$ 18,290,000	$ -	$ 16,310,000	$ 1,980,000
July 11, 2016	8,240,000	-	-	8,240,000
January 19, 2017	7,380,000	-	1,670,000	5,710,000
January 9, 2019	31,585,000	-	575,000	31,010,000
August 17, 2021	-	22,600,000	-	22,600,000
Bond premium	7,884,373	-	461,759	7,422,614
School bond loan fund	3,091,159	1,088,253	3,102,000	1,077,412
Lease liabilities	44,731	-	22,482	22,249
Accumulated sick leave	322,251	61,403	61,015	322,639
	$ 76,837,514	$ 23,749,656	$ 22,202,256	$ 78,384,914

Long-term obligations outstanding at June 30, 2022 is comprised of the following:

	Final Maturity Dates	Interest Rates	Outstanding Balance	Amount Due Within One Year
General Obligation Bonds				
$19,410K Building and Site Series I, June 7, 2016				
Annual maturities of $415K to $570K	May 1, 2026	4.00	$ 1,980,000	$ 415,000
$8,320K Refunding July 11, 2016:				
Annual maturities of $970K to $2,090K	May 1, 2030	4.00 - 5.00	8,240,000	-
$8,845K Refunding January 19, 2017:				
Annual maturities of $500K to $1,765K	May 1, 2026	4.00	5,710,000	1,710,000
$32,110K Building and Site Series II, January 9, 2019				
Annual maturities of $590K to $1,450K	May 1, 2048	4.00 - 5.00	31,010,000	590,000
$26,635K Refunding August 17, 2021:				
Annual maturities of $200K to $2,660K	May 1, 2046	1.00 - 3.01	22,600,000	-
Bond premium			7,422,614	461,759
Lease Liabilities				
$73,741 Copier Lease February 5, 2020:				
Annual maturities of $22,249 to $22,482	June 1, 2023	12.41	22,249	22,249
Other Obligations				
State school bond loan			1,077,412	-
Accumulated sick leave			322,639	60,000
			$ 78,384,914	$ 3,259,008

The District is required to obtain loans from the Michigan School Bond Loan Fund (the "Fund") for the payment of annual maturities of its general obligation bonds. There is no fixed maturity schedule for the repayment of these loans. Instead, the principal and interest are payable when taxes levied for debt service are no longer needed to retire bonded debt. During the year, the District repaid $3,102,000 of the outstanding balance and obtained a loan amount of $1,088,253. At June 30, 2022, the District owed the Fund a total $1,077,412.

On August 17, 2021 the District issued $22,600,000 in general obligation bonds to advance refund $19,470,000 of 2016 refunding bonds and $3,102,000 of the School Bond Loan Fund. The true interest cost of the refunding bonds was 2.54777%, resulting in a total net present value savings of $1,630,301, or 2.45%. The net proceeds of $19,291,971 after underwriter's discount of $72,320, and bond issuance cost of $133,709, were deposited with an escrow agent and used to retire the outstanding obligations above.

The annual requirements to pay principal and interest on long-term bonds and lease liabilities are as follows:

Year Ended June 30	General Obligation Bonds Principal	General Obligation Bonds Interest	Lease Liabilities Principal	Lease Liabilities Interest	Total
2023	$ 2,715,000	$ 2,698,990	$ 22,249	$ 903	$ 5,437,142
2024	2,825,000	2,590,390	-	-	5,415,390
2025	2,945,000	2,471,190	-	-	5,416,190
2026	3,270,000	2,346,840	-	-	5,616,840
2027	3,850,000	2,202,048	-	-	6,052,048
2028	4,150,000	2,064,500	-	-	6,214,500
2029	4,920,000	1,917,750	-	-	6,837,750
2030	3,785,000	1,753,716	-	-	5,538,716
2031	3,900,000	1,624,826	-	-	5,524,826
2032	2,285,000	1,512,956	-	-	3,797,956
2033	2,265,000	1,429,104	-	-	3,694,104
2034	2,265,000	1,344,650	-	-	3,609,650
2035	2,310,000	1,258,876	-	-	3,568,876
2036	2,300,000	1,173,259	-	-	3,473,259
2037	2,280,000	1,086,879	-	-	3,366,879
2038	2,265,000	996,507	-	-	3,261,507
2039	2,310,000	906,040	-	-	3,216,040
2040	2,290,000	812,727	-	-	3,102,727
2041	2,275,000	719,292	-	-	2,994,292
2042	2,260,000	626,271	-	-	2,886,271
2043	2,305,000	532,481	-	-	2,837,481
2044	2,290,000	436,336	-	-	2,726,336
2045	2,275,000	339,556	-	-	2,614,556
2046	2,305,000	243,227	-	-	2,548,227
2047	1,450,000	145,000	-	-	1,595,000
2048	1,450,000	72,500	-	-	1,522,500
	$ 69,540,000	$ 33,305,911	$ 22,249	$ 903	$ 102,869,063

Lease Commitments

During the year ended June 30, 2022, the District implemented guidance in GASB No. 87, *Leases*, and recognized the value of the copiers leased under long-term contracts. See additional details in Note L.

Note G – Retirement Plan

Plan Description

The Michigan Public School Employees' Retirement System (MPSERS) (the "System"), is a cost-sharing, multiple-employer, state-wide, defined benefit public employee retirement system 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 the 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.

The System is administered by the Office of Retirement Services (ORS) within the Michigan Department of Technology, Management and 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 www.michigan.gov/orsschools.

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

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

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 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 MPSERS who became a member of MPSERS after June 30, 2010 is a Pension Plus member. Pension Plus is a hybrid plan that contains a pension component with an employee contribution (graded up to 6.4% of salary) and a flexible and transferable defined contribution (DC) tax-deferred account that earns an employer match of 50% (up to 1% of salary) on employee contributions. Retirement benefits for Pension Plus members are determined by final average compensation and years of service. Disability and survivor benefits are available to Pension Plus members.

Pension Reform 2012

On September 4, 2012, the Governor signed Public Act 300 of 2012 into law. The legislation grants all active members who first became a member before July 1, 2010 and who earned service credit in the 12 months ending September 3, 2012, or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their pension. Any changes to a member's pension are effective as of the member's *transition date*, which is defined as the first day of the pay period that begins on or after February 1, 2013. Under the reform, members voluntarily chose to increase, maintain, or stop their contributions to the pension fund.

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

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

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

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

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

Members who did not make an election before the deadline defaulted to Option 3 as described above. Deferred or nonvested public school employees on September 3, 2012, who return to public school employment on or after September 4, 2012, will be considered as if they had elected Option 3 above. Returning members who made the retirement plan election will retain whichever option they chose. Employees who first work on or after September 4, 2012, choose between two retirement plans: the Pension Plus plan described above and a Defined Contribution (DC) plan that provides a 50% employer match (up to 3% of salary) on employee contributions. New employees are automatically enrolled as members in the Pension Plus plan as of their date of hire. 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.

Pension Reform of 2017

On July 13, 2017, the Governor signed Public Act 92 of 2017 into law. The legislation closed the Pension Plus plan to newly hired employees as of February 1, 2018 and created a new, optional Pension Plus 2 plan with similar plan benefit calculations but containing a 50/50 contribution share between the employee and the employer, including the cost of future unfunded liabilities. The assumed rate of return on the Pension Plus 2 plan is 6%. Further, under certain adverse actuarial conditions, the Pension Plus 2 plan would close to new employees if the actuarial funded ratio falls below 85% for two consecutive years. The law includes other provisions to the retirement eligibility age, plan assumptions, and unfunded liablity payment methods.

Regular Retirement

The retirement 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 (MIP) 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 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 and is shown below:

Option 1: FAC x total years of service x 1.5%
Option 2: FAC x 30 years of service x 1.5% + FAC x years of service beyond 30 x 1.25%
Option 3: FAC x years of service as of transition date x 1.5% + FAC x years of service after transition date x 1.25%
Option 4: FAC as of transition date x years of service as of transition date x 1.5%

A MIP member who became a member of MPSERS prior to July 1, 2010 may retire at:

- age 46 with 30 or more years of credited service; or
- age 60 with 10 or more years of credited service; or
- age 60 with 5 years of credited service provided the member has worked through his or her 60th birthday and has credited service in each of the five school fiscal years immediately preceding the retirement effective date.

A Pension Plus member may retire at age 60 with 10 or more years of credited service.

A Pension Plus 2 member may retire at age 60 with 10 or more years of credited service. Section 81c(5) of PA 300 as amended requires the regular retirement age to be increased in whole year increments based on the results of mortality analysis five-year actuarial experience studies performed after October 1, 2019 and the actuarial funding status of the plan. If the regular retirement age for Pension Plus 2 members is increased in accordance with this provision, members within five years of retirement from the effective date of the increase are automatically exempted and the retirement board may additionally authorize those between five and eight years of the then current retirement age to be exempted.

A Basic Plan member may retire at:
- age 55 with 30 or more years of service; or
- age 60 with 10 or more years of service.

There is no mandatory retirement age.

Early Retirement

A MIP or Basic member may retire with an early permanently reduced pension:
- after completing at least 15 but less than 30 years of credited service; and
- after attaining age 55; and
- with credited service in each of the 5 school years immediately preceding the pension effective date.

The early pension is computed in the same manner as a regular pension but is permanently reduced 0.5% for each full and partial month between the pension effective date and the date the member will attain age 60.

Deferred Retirement

If a member terminates employment before attaining the age qualification, but after accruing 10 or more years of credited service, the member becomes a deferred member and is eligible for a pension at the time the age qualification is attained.

Non-Duty Disability Benefit

A member with 10 or more years of credited service who becomes totally and permanently disabled due to any non-duty related cause and who has not met the age requirement for a regular pension is eligible for a non-duty disability pension computed in the same manner as an age and service pension, upon recommendation from the member's personal physician and the Retirement Board physician and the approval of the Retirement Board. An Annual Certification of Disability is conducted each January. Upon prior approval, total disability benefits plus authorized outside earnings are limited to 100% of final average compensation (increased by 2% for each year retired; first year 100%, next year 102%, etc.).

Duty Disability Benefit

A member who becomes totally and permanently disabled as a result of a duty-related cause, who has not met the age and service requirement for a regular pension, and who is in receipt of weekly workers' compensation is eligible for a duty disability pension computed in the same manner as an age and service pension (but based upon a minimum of 10 years of service) upon recommendation from the member's personal physician and the Retirement Board physician and the approval of the Retirement Board. An Annual Certification of Disability is conducted each January. Upon prior approval, total disability benefits plus authorized outside earnings are limited to 100% of final average compensation (increased by 2% for each year retired; first year 100%, next year 102%, etc.).

Pension Payment Options

The election of a pension option is made at the time of application. Once a member has retired, the option choice is irrevocable. The pension effective date is the first of the calendar month following the date the member has satisfied the age and service requirements, has terminated public school employment and has the completed application forms on file with the System for a period of 15 days. A retroactive pension can be paid for no more than 12 calendar months. Thus, delay in filing the application can result in a loss of some retroactive pension benefits. An applicant may select only one of the following options.

Straight Life Pension – the Straight Life Pension pays the largest level pension a retiree can receive during his or her lifetime and stops with the month of the retiree's death. There are no monthly benefits for a beneficiary. The pension benefit is computed with no beneficiary rights. If the retiree made contributions while an employee and has not received the total accumulated contributions before death, a refund of the balance of the contributions is made to the beneficiary of record. If the retiree did not make any contributions, there will not be payments to any beneficiaries.

Survivor Options - Under the Survivor Options, 100% Survivor Pension, 100% Equated, 75% Survivor Pension, 75% Equated, 50% Survivor Pension and 50% Equated, the reduction is an actuarial determination dependent upon the combined life expectancies of a retiree and a beneficiary and varies from case to case. A beneficiary may only be a spouse, brother, sister, parent or child (including an adopted child) of a retiring member. If the beneficiary predeceases a retiree, the pension will revert to either the Straight Life or Straight Life Equated amount ("pop-up" provision). If, however, a retiree was single at the time of retirement and subsequently married, the retiree can request to nominate a new spouse if they elected the straight life option at retirement. Also, if a retiree was married at the time of retirement and has since been widowed and remarried, the retiree can request to nominate a new spouse as a pension beneficiary as long as they elected a survivor option for the spouse at the time of retirement.

100% Survivor Pension – pays a reduced pension to a retiree. The month after a retiree's death, the same amount will be paid to a designated beneficiary for the remainder of his or her lifetime.

75% Survivor Pension – pays a reduced pension to a retiree. The month after a retiree's death, 75% of the pension amount will be paid to a designated beneficiary for the remainder of his or her lifetime.

50% Survivor Pension – pays a reduced pension to a retiree. The month after a retiree's death, 50% of the pension amount will be paid to a designated beneficiary for the remainder of his or her lifetime.

Equated Plan – For MIP and Basic members, the Equated Plan may be combined with the Straight Life, 100% Survivor, 75% Survivor, or 50% Survivor pension by any member under age 61, except a disability applicant. The Equated Plan provides a higher pension every month until age 62, at which time the monthly pension is permanently decreased to a lower amount than the Straight Life, 100%, 75%, or 50% Survivor alone would provide.

The intent of the Equated Plan is for the retiree's pension to decrease at age 62 by approximately the same amount as that person's Social Security benefit will provide. The System pension until age 62 should be about the same as the combined System pension and Social Security after age 62.

The projected Social Security pension the retiring member obtains from the Social Security Administration and furnishes to the System is used in the Equated Plan calculation. The actual Social Security pension may vary from the estimate.

NOTE: The reduction in the pension at age 62 pertains to the Equated Plan only and affects only the retiree. A beneficiary under 100% Equated, 75% Equated or 50% Equated will receive the 100%, 75%, or 50% Survivor amount the month following the retiree's death as if the Equated Plan had not been chosen. A beneficiary does not participate in the Equated Plan.

Survivor Benefit

A non-duty survivor pension is available if a Member Investment Plan (MIP) member has 10 years of credited service or, if age 60 or older, with five years of credited service; the date they became a MIP member does not matter. The Basic Plan provides a survivor pension with 15 years of credited service or, if age 60 or older, with 10 years of credited service. An active member may nominate as a survivor beneficiary a spouse, child(ren) (including adopted child(ren)), brother, sister, or parent. If other than the spouse is nominated and a spouse exists, the spouse must waive this benefit. If no beneficiary has been nominated, the beneficiary is automatically the spouse; or, if there is no spouse, unmarried children under age 18 share the benefit equally until age 18. The benefit is computed as a regular pension but reduced in accordance with an Option 2 (100% survivor pension factor). The pension begins the first of the month following the member's death. In the event of death of a deferred member, the System begins payment to the nominated beneficiary at the time the member would have attained the minimum age qualification.

A duty survivor pension is payable if weekly Workers' Compensation is being paid to the eligible beneficiary due to the member's death. A spouse receives the benefit (based on a minimum of 10 years of service credit) reduced in accordance with a 100% survivor pension factor. If there is no spouse, unmarried children under age 18 share the benefit equally until age 18; if there is no spouse or child(ren), a disabled and dependent parent is eligible.

Postemployment Adjustments

A retiree who became a Member Investment Plan (MIP) member prior to July 1, 2010, receives an annual post-retirement non-compounded increase of 3% 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.

On January 1, 1990, pre-October 1, 1981 retirees received an increase that ranged from 1% to 22% dependent upon the pension effective date. On October 1, 1990, the base pension of all retirees with an effective pension date of January 1, 1987, or earlier was increased to include all prior post-retirement adjustments.

On January 1, 1986, all recipients through calendar year 1985 received a permanent 8% increase that established the 1986 base pension. In addition, each October, retirees with a pension effective date of January 1, 1987, or earlier receive a fixed increase equal to 3% of the base pension. Both increases are deducted from the distribution of excess investment income, if any. Beginning in 1983, eligible recipients receive an annual distribution of excess investment income, if any

Contributions and Funded Status

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

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

The schedule below summarizes pension contribution rates in effect for the plan fiscal year 2021.

Pension Contribution Rates:

Plan Name	**Member**	**District**
Basic	0.0 – 4.0 %	19.78%
Member Investment Plan (MIP)	3.0 – 7.0%	19.78%
Pension Plus	3.0 – 6.4 %	16.82%
Pension Plus 2	6.2%	19.59%
Defined Contribution	0.0%	13.39%

The District’s contributions to MPSERS under all pension plans for the year ended June 30, 2022, inclusive of the MSPERS UAAL Stabilization, totaled $4,677,985.

MPSERS Plan Net Pension Liability (in thousands)

Total Pension Liability	$ 87,569,422
Plan Fiduciary Net Position	63,332,155
Net Pension Liability	$ 24,237,267
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	72.32%
Net Pension Liability as a Percentage of Covered Employee Payroll	261.49%
Total Covered Payroll	$9,269,004

Proportionate Share of Reporting Unit’s Net Pension Liability

At June 30, 2022, the District reported a liability of $33,824,240 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2020. The District’s proportion of the net pension liability was determined by dividing each employer’s statutorily required pension contributions to the System during the measurement period by the percent of the pension contributions required from all applicable employers during the measurement period. At September 30, 2021 the District’s proportion was 0.14286653%, which was a decrease from 0.14347413% at September 30, 2020.

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

For the year ended June 30, 2022, the District recognized pension expense of $3,681,680. At June 30, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 523,952	$ 199,185
Changes of assumptions	2,132,159	—
Net difference between projected and actual earnings on pension plan investments	—	10,874,385
Changes in proportion and differences between District contributions and proportionate share of contributions	245,267	226,616
District contributions subsequent to the measurement date*	4,377,567	—
Total	$ 7,278,945	$ 11,300,186

* This amount, reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2023.

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

Year ended June 30	Amount
2023	$ (917,121)
2024	(1,863,847)
2025	(2,659,520)
2026	(2,958,320)

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.

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions:

Valuation Date:	September 30, 2020
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	2.75%
Investment Rate of Return:	
MIP and Basic Plans (Non-Hybrid):	6.80% net of investment expenses
Pension Plus Plan (Hybrid):	6.80% net of investment expenses
Pension Plus 2:	6.00% net of investment expenses
Projected Salary Increases:	2.75% - 11.55%, including wage inflation of 2.75%
Cost-of-Living Adjustments:	3% annual non-compounded for MIP members
Mortality:	
Retirees:	RP-2014 Male and Female Healthy Annuitant Mortality Tables, scaled by 82% for males and 78% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006.
Active Members:	RP-2014 Male and Female Employee Annuitant Mortality Tables, scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.
Disabled Retirees:	RP-2014 Male and Female Disabled Annuitant Mortality Tables scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.

Notes:

- 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 valuations beginning with the September 30, 2018 valuation. The total pension liability as of September 30, 2021, is based on the results of an actuarial valuation date of September 30, 2020, and rolled forward using generally accepted actuarial procedures, including the experience study.

- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: [4.4892 for non-university employers].

- Recognition period for assets in years: 5.0000.

- Full actuarial assumptions are available in the 2021 MPSERS Annual Comprehensive Financial Report found on the ORS website at (www.michigan.gov/orsschools).

Long-Term Expected Rate of Return on Investments

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2021 are summarized in the following table:

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 2.0% inflation.

Rate of Return

For the fiscal year ended September 30, 2021, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 27.3%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changed amounts actually invested.

Discount Rate

A discount rate of 6.80% was used to measure the total pension liability (6.80% for the Pension Plus plan, 6.0% for the Pension Plus 2 plan provided through non-university employers only). This discount rate was based on the long-term expected rate of return on pension plan investments of 6.80% (6.80% for the Pension Plus plan, 6.0% for the Pension Plus 2 plan). 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 these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 6.80% (6.80% for the Pension Plus plan, 6.0% for the Pension Plus 2 plan), as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher:

	1% Decrease 5.8%/5.8%/5.0%	Current Single Discount Rate Assumption 6.8%/6.8%/6.0%	1% Increase 7.8%/7.8%/7.0%
District's proportionate share of the net pension liability	$ 48,359,490	$ 33,824,240	$ 21,773,565

Michigan Public School Employees' Retirement System (MPSERS) Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued Michigan Public School Employees' Retirement System September 30, 2021 Annual Comprehensive Financial Report, available here: (www.michigan.gov/orsschools).

Payables to the Michigan Public School Employees' Retirement System (MPSERS)

Payables to the pension plan totaling $693,265 at June 30, 2022 arise from the normal legally required contributions based on the accrued salaries payable at year end, expected to be liquidated with expendable available financial resources.

Note H – Other Postemployment Benefits

Plan Description

The Michigan Public School Employees' Retirement System (MPSERS or "System") is a cost-sharing, multiple-employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. 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 health plan provides all eligible 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 www.michigan.gov/orsschools.

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.

Retiree Healthcare Reform of 2012

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

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

Contributions and Funded Status

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

Employer OPEB 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 a 18-year period beginning October 1, 2020 and ending September 30, 2038.

The schedule below summarizes OPEB contribution rates in effect for fiscal year ended September 30, 2021:

OPEB Contribution Rates:

Benefit Structure	Member	District
Premium Subsidy	3.0%	8.43%
Personal Healthcare Fund (PHF)	0.0 %	7.57%

Required contributions to the OPEB plan from the District were $1,075,744 for the year ended September 30, 2021.

Net OPEB Liability (in thousands)

Total OPEB Liability	$ 12,225,697
Plan Fiduciary Net Position	10,742,198
Net OPEB Liability	$ 1,483,499
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	87.87%
Net OPEB Liability as a Percentage of Covered Employee Payroll	16.00%
Total Covered Payroll	$ 9,269,004

Proportionate Share of Reporting Unit's Net OPEB Liability

At June 30, 2022, the District reported a liability of $2,175,807 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2020. The District's proportion of the net OPEB liability was determined by dividing each employer's statutorily required OPEB contributions to the System during the measurement period by the percent of OPEB contributions required from all applicable employers during the measurement period. At September 30, 2021 the District's proportion was 0.14254704%, which was a decrease from 0.14260715% at September 30, 2020.

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

For the year ended June 30, 2022, the District recognized OPEB credit of $1,216,896. At June 30, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ —	$ 6,210,685
Changes of assumptions	1,818,866	272,170
Net difference between projected and actual earnings on OPEB plan investments	—	1,639,945
Changes in proportion and differences between District contributions and proportionate share of contributions	138,649	116,345
District contributions subsequent to the measurement date*	967,543	—
Total	$ 2,925,058	$ 8,239,145

* This amount, reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2023.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30	Amount
2023	$ (1,640,571)
2024	(1,489,236)
2025	(1,357,164)
2026	(1,293,035)
2027	(443,446)
Thereafter	(58,178)

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.

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions:

Valuation Date:	September 30, 2020
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	2.75%
Investment Rate of Return:	6.95% net of investment expense
Projected Salary Increases:	2.75% - 11.55%, including wage inflation of 2.75%
Healthcare Cost Trend Rate:	Pre-65 - 7.0% Year 1 graded to 3.5% Year 15; 3.0% Year 120 Post-65 – 5.25% Year 1 graded to 3.50% Year 15; 3.0% Year 120
Mortality:	
Retirees:	RP-2014 Male and Female Healthy Annuitant Mortality Tables, scaled by 82% for males and 78% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006.
Active Members:	RP-2014 Male and Female Employee Annuitant Mortality Tables, scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.
Disabled Retirees:	RP-2014 Male and Female Disabled Annuitant Mortality Tables scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.

Other Assumptions:

Opt Out Assumptions:	21% of eligible participants hired before July 1, 2008 and 30% of those hired after June 30, 2008 are assumed to opt out of the retiree health plan.
Survivor Coverage:	80% of male retirees and 67% of female retirees are assumed to have coverages continuing after the retiree's death.
Coverage Election at Retirement:	75% of male and 60% of female future retirees are assumed to elect coverage for one or more dependents.

Notes:

- 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 OPEB valuations beginning with the September 30, 2018 valuation. The total OPEB liability as of September 30, 2021, is based on the results of an actuarial valuation date of September 30, 2020, and rolled forward using generally accepted actuarial procedures, including the experience study.

- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: [5.6018 for non-university employers].

- Recognition period for assets in years: 5.0000.

- Full actuarial assumptions are available in the 2021 MPSERS Annual Comprehensive Financial Report found on the ORS website at www.michigan.gov/orsschools.

Long-Term Expected Rate of Return on Investments

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the OPEB plan's target asset allocation as of September 30, 2021, are summarized in the following table:

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 2.0% inflation.

Rate of Return

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

Discount Rate

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 OPEB plan investments of 6.95%. The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that 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 OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

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

	1% Decrease 5.95%	Current Discount Rate 6.95%	1% Increase 7.95%
District's proportionate share of the net OPEB liability	$ 4,043,041	$ 2,175,807	$ 591,191

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

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

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
District's proportionate share of the net OPEB liability	$ 529,574	$ 2,175,807	$ 4,028,016

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued 2021 MPSERS Annual Comprehensive Financial Report, available on the ORS website at www.michigan.gov/orsschools.

Payables to the OPEB Plan

Payables to the OPEB plan totaling $129,270 at June 30, 2022 arise from the normal legally required contributions based on the accrued salaries payable at year end, expected to be liquidated with expendable available financial resources.

Note I – Risk Management and Benefits

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The District has purchased commercial insurance for property loss, errors and omissions, workers' compensation, health benefits, and dental and vision benefits provided to employees. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

There were no significant reductions in insurance coverage in fiscal 2021-22, and as of year ended June 30, 2022, there were no material pending claims against the District.

Note J – Stewardship, Compliance and Accountability

The District has an unrestricted net position deficit of $37,398,701 and a total net position deficit of $29,350,467 as of June 30, 2022. These deficit net positions result primarily from the net pension liability of $37,845,481 and net OPEB liability of $7,489,894 (net of deferred outflows and inflows of resources).

Note K – Commitments

On June 6, 2016, the District issued $19,410,000 of general obligations 2016 School Building and Site Bonds, whose proceeds are being used for land improvements, building renovations, and additions, and furniture and equipment purchases. At June 30, 2022, unspent balances committed to these projects totaled $287,217, which are expected to be fully expended by the year ended June 30, 2023.

On January 1, 2019, the District issued $32,110,000 of general obligations 2019 School Building and Site Bonds whose proceeds are being used for land improvements, building renovations, and additions, and furniture and equipment purchases. At June 30, 2022, unspent balances committed to these projects totaled $1,660,942, which are expected to be fully expended by the year ended June 30, 2023.

Note L – New Accounting Pronouncement Adopted

Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases,* was adopted by the District during the fiscal year ended June 30, 2022. This Statement enhances the relevance and consistency of information about governments' leasing activities by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows or resources or outflows of resources based on the payment provisions of the contract. 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. Upon implementation, the District recognized right-to-use lease assets and liabilities totaling $44,731 as of July 1, 2021. Net position as of July 1, 2021 was not required to be restated as a result of implementing the Statement.

REQUIRED SUPPLEMENTARY INFORMATION

SPARTA AREA SCHOOLS
Required Supplementary Information
Schedule of the District's Proportionate Share of the Net Pension Liability
MPSERS Cost-sharing Multiple-employer Plan
June 30, 2022

	Year Ended June 30, 2022	Year Ended June 30, 2021	Year Ended June 30, 2020
District's proportion of the net pension liability	0.14286653%	0.14347413%	0.14268735%
District's proportionate share of the net pension liability	$ 33,824,240	$ 49,284,924	$ 47,253,253
District's covered-employee payroll	$ 12,859,335	$ 12,626,680	$ 12,528,837
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	263.03%	390.32%	377.16%
Plan fiduciary net position as a percentage of the total pension liability	72.60%	59.72%	60.31%

The amounts presented for each fiscal year were determined as of September 30 of the preceding year.

Note: GASB Statement No 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

See accompanying notes to required supplementary information.

Year Ended June 30, 2019	Year Ended June 30, 2018	Year Ended June 30, 2017	Year Ended June 30, 2016	Year Ended June 30, 2015
0.14120573%	0.14265519%	0.14571853%	0.13939359%	0.13971278%
$ 42,448,992	$ 36,968,024	$ 36,355,581	$ 34,046,922	$ 30,773,840
$ 11,956,963	$ 11,679,762	$ 12,622,898	$ 11,714,549	$ 11,984,720
355.01%	316.51%	288.01%	290.64%	256.78%
62.12%	63.96%	63.01%	62.92%	60.15%

SPARTA AREA SCHOOLS
Required Supplementary Information
Schedule of the District's Proportionate Share of the Net OPEB Liability
MPSERS Cost-sharing Multiple-employer Plan
June 30, 2022

	Year Ended June 30, 2022	Year Ended June 30, 2021
District's proportion of the net OPEB liability	0.14254704%	0.14260715%
District's proportionate share of the net OPEB liability	$ 2,175,807	$ 7,639,846
District's covered-employee payroll	$ 12,859,335	$ 12,626,680
District's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	16.92%	60.51%
Plan fiduciary net position as a percentage of the total OPEB liability	87.33%	59.44%

The amounts presented for each fiscal year were determined as of September 30 of the preceding year.

Note: GASB Statement No 75 was implemented in fiscal year 2018. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

See accompanying notes to required supplementary information.

Year Ended June 30, 2020	Year Ended June 30, 2019	Year Ended June 30, 2018
0.14352835%	0.14064806%	0.14268909%
$ 10,302,103	$ 11,180,046	$ 12,635,791
$ 12,528,837	$ 11,956,963	$ 11,679,762
82.23%	93.50%	108.19%
48.46%	43.10%	36.53%

SPARTA AREA SCHOOLS
Required Supplementary Information
Schedule of District Pension Contributions
MPSERS Cost-sharing Multiple-employer Plan
June 30, 2022

	Year Ended June 30, 2022	Year Ended June 30, 2021	Year Ended June 30, 2020
Contractually required contribution	$ 4,677,985	$ 4,052,122	$ 3,970,869
Contributions in relation to the contractually required contribution	4,677,985	4,052,122	3,970,869
Contribution deficiency (excess)	$ -	$ -	$ -
District's covered-employee payroll	$ 13,792,262	$ 12,640,411	$ 12,653,895
Contributions as a percentage of covered employee payroll	33.92%	32.06%	31.38%

Note: GASB Statement No 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

See accompanying notes to required supplementary information.

Year Ended June 30, 2019	Year Ended June 30, 2018	Year Ended June 30, 2017	Year Ended June 30, 2016	Year Ended June 30, 2015
$ 3,809,380	$ 3,588,135	$ 3,873,190	$ 3,611,662	$ 3,712,483
3,809,380	3,588,135	3,873,190	3,611,662	3,712,483
$ -	$ -	$ -	$ -	$ -
$ 12,536,773	$ 11,993,853	$ 12,303,086	$ 12,118,723	$ 11,688,767
30.39%	29.92%	31.48%	29.80%	31.76%

SPARTA AREA SCHOOLS
Required Supplementary Information
Schedule of District OPEB Contributions
MPSERS Cost-sharing Multiple-employer Plan
June 30, 2022

	Year Ended June 30, 2022	Year Ended June 30, 2021
Contractually required contribution	$ 1,075,744	$ 1,012,295
Contributions in relation to the contractually required contribution	1,075,744	1,012,295
Contribution deficiency (excess)	$ -	$ -
District's covered-employee payroll	$ 13,792,262	$ 12,640,411
Contributions as a percentage of covered employee payroll	7.80%	8.01%

Note: GASB Statement No 75 was implemented in fiscal year 2018. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

See accompanying notes to required supplementary information.

Year Ended June 30, 2020	Year Ended June 30, 2019	Year Ended June 30, 2018
$ 1,003,153	$ 991,595	$ 885,530
1,003,153	991,595	885,530
$ -	$ -	$ -
$ 12,653,895	$ 12,536,773	$ 11,993,853
7.93%	7.91%	7.38%

Note A – Net Pension Liability and Contributions

Changes of benefit terms: There were no changes of benefit terms in 2021-22.

Changes of assumptions: There were no changes of benefit assumptions in 2021-22.

Note B – Net OPEB Liability and Contributions

Changes of benefit terms: There were no changes of benefit terms in 2021-22.

Changes of assumptions: There were no changes of benefit assumptions in 2021-22.

SUPPLEMENTARY INFORMATION

GENERAL FUND

To account for resources which are traditionally associated with the general operation of the District and not required to be accounted for in another fund.

SPARTA AREA SCHOOLS
General Fund
Comparative Balance Sheet
June 30, 2022 and 2021

	2022	2021
Assets		
Cash equivalents and investments (Note B)	$ 6,249,197	$ 5,280,767
Accounts receivable	115,775	34,227
Due from other funds (Note D)	25,879	13,920
Due from other governmental units (Note C)	5,695,760	4,839,380
Inventory	22,028	9,817
Prepaid expenditures	5,566	58,647
Total Assets	$ 12,114,205	$ 10,236,758
Liabilities and Fund Balances		
Liabilities		
Accounts payable	$ 162,132	$ 225,583
Due to other funds (Note D)	22,973	277,122
Due to other governmental units	663,216	461,960
Payroll related accruals	552,168	514,309
Salaries payable	1,714,058	1,602,334
Unearned revenue	740,345	292,846
Total Liabilities	3,854,892	3,374,154
Fund Balances		
Nonspendable	27,594	68,464
Unassigned	8,231,719	6,794,140
Total Fund Balances	8,259,313	6,862,604
Total Liabilities and Fund Balances	$ 12,114,205	$ 10,236,758

SPARTA AREA SCHOOLS
General Fund
Comparative Schedule of Revenues
For the years ended June 30, 2022 and 2021

	2022	2021
Local sources:		
Property taxes:		
Current property taxes	$ 2,330,539	$ 2,237,333
Delinquent and other property taxes	6,781	2,077
Interest on delinquent taxes	4,762	2,466
	2,342,082	2,241,876
Interest earnings:		
Interest on deposits and investments	19,489	24,618
Revenue from student activities:		
Athletics admissions	70,755	6,537
Pay-to-participate	125	23,475
Tournaments	8,727	2,571
	79,607	32,583
Other local revenue:		
Preschool/childcare fees	354,057	299,268
Sale of fuel	42,829	17,563
Rental of school facilities	46,278	59,083
Donations	267	-
Universal service funding	12,928	18,430
Insurance claims	169,205	381,693
Adult education reimbursement	4,696	519
Miscellaneous	221,275	185,773
	851,535	962,329
Total local sources	3,292,713	3,261,406
State sources:		
State aid	23,559,988	21,695,552
Virtual learning support grants	3,101	-
Special education millage incentive	83,047	-
Adult continuing education	612,923	457,472
Special education - transportation	143,976	200,588
Special education - itinerants	89,672	82,206
Early literacy	44,895	46,038
Total state sources	24,537,602	22,481,856

(Continued)

SPARTA AREA SCHOOLS
General Fund
Comparative Schedule of Revenues
For the years ended June 30, 2022 and 2021

	2022	2021
Federal sources:		
Title I	$ 373,699	$ 367,241
Title I C - Migrant	-	62,003
Title IIA	110,912	89,841
Title III	34,448	5,871
Title IV	24,304	26,327
Pandemic EBT local costs	3,063	-
Adult basic education	300,467	233,126
Education stabilization fund	1,551,506	454,679
Child care stabilization	202,064	-
Coronavirus relief funds	-	1,093,805
I.D.E.A. program	913,231	784,773
Medicaid - school based	11,288	5,875
Health resource advocate funding	50,541	-
Total federal sources	3,575,523	3,123,541
Interdistrict sources:		
ISD collected millage	2,015,383	1,981,555
Special education - tuition	272,693	219,422
Great Start Readiness program	127,013	116,389
Medicaid fee for service	277,155	238,118
Other interdistrict	118,011	85,426
Total interdistrict sources	2,810,255	2,640,910
Total Revenues	$ 34,216,093	$ 31,507,713

SPARTA AREA SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2022 and 2021

	2022	2021
Current:		
Instruction:		
Basic programs:		
Elementary:		
Salaries	$ 3,936,877	$ 3,500,745
Employee benefits	2,957,278	2,569,127
Purchased services	195,165	216,473
Supplies	147,969	206,803
Capital outlay	-	180,903
Miscellaneous	15,431	3,980
	7,252,720	6,678,031
Middle school:		
Salaries	1,600,814	1,570,033
Employee benefits	1,164,869	1,130,628
Purchased services	59,816	332,159
Supplies	28,257	14,552
Capital outlay	-	77,856
Miscellaneous	9,793	10,129
	2,863,549	3,135,357
High school:		
Salaries	2,585,316	2,371,521
Employee benefits	1,875,059	1,702,534
Purchased services	172,855	378,314
Supplies	21,528	40,830
Capital outlay	-	85,557
Miscellaneous	2,981	5,331
Payments to other districts	-	7,040
	4,657,739	4,591,127
Summer school:		
Salaries	155,830	5,190
Employee benefits	34,000	1,818
Purchased services	39,498	19,154
Supplies	3,454	479
Payments to other districts	2,000	-
	234,782	26,641
Total basic programs	15,008,790	14,431,156
Added needs:		
Special education:		
Salaries	1,863,781	1,789,938
Employee benefits	1,258,487	1,217,165
Purchased services	88,704	58,432
Supplies	14,871	10,787
Payments to other school districts	171,998	231,820
	3,397,841	3,308,142

(Continued)

SPARTA AREA SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2022 and 2021

	2022	2021
Compensatory education:		
Salaries	$ 365,926	$ 325,159
Employee benefits	232,372	208,207
Purchased services	123,169	148,797
Supplies	650	910
Payments to other school districts	-	37,932
	722,117	721,005
Total added needs	4,119,958	4,029,147
Adult education services:		
Basic:		
Salaries	220,869	148,332
Employee benefits	95,498	59,626
Purchased services	22,284	19,997
Supplies	4,241	81
	342,892	228,036
Secondary:		
Salaries	86,181	86,804
Employee benefits	39,906	38,141
Purchased services	13,022	13,667
Supplies	6,801	6,344
	145,910	144,956
Total adult education services	488,802	372,992
Total instruction	19,617,550	18,833,295
Supporting services:		
Pupil services:		
Truancy/absenteeism services:		
Salaries	-	659
Employee benefits	-	232
	-	891
Guidance services:		
Salaries	490,341	503,589
Employee benefits	337,221	345,635
Purchased services	355	4,361
Supplies	23,289	21,268
	198	-
	851,404	874,853
Health services:		
Salaries	107,323	50,736
Employee benefits	80,096	32,548
Purchased services	360	638
Supplies	4,803	3,288
Payments to other school districts	119,970	128,959
	312,552	216,169

(Continued)

SPARTA AREA SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2022 and 2021

	2022	2021
Psychological services:		
Salaries	$ 44,388	$ -
Employee benefits	9,091	572
Purchased services	-	50
Supplies	2,396	16
Payments to other school districts	182,877	193,334
	238,752	193,972
Speech pathology services:		
Employee benefits	3,745	858
Purchased services	528	-
Supplies	2,991	205
Payments to other school districts	559,523	486,416
	566,787	487,479
Social worker services:		
Employee benefits	2,495	572
Purchased services	192,093	121,614
Supplies	588	20
Payments to other school districts	527,089	243,063
	722,265	365,269
Homebound instruction:		
Purchased services	73,123	77,107
Total pupil services	2,764,883	2,215,740
Instructional staff services:		
Professional staff development:		
Salaries	113,808	59,242
Employee benefits	42,764	21,825
Purchased services	74,769	8,444
Supplies	100	-
Miscellaneous	777	-
	232,218	89,511
Library:		
Purchased services	59,838	53,157
Supplies	8,644	4,774
	68,482	57,931
Instruction related technology:		
Purchased services	-	1,200
Supplies	532	258
	532	1,458
Supervision/direction of instruction:		
Salaries	249,172	229,806
Employee benefits	168,052	150,910
Purchased services	5,367	3,169
Supplies	5,568	1,075
Miscellaneous	90	-
	428,249	384,960

(Continued)

SPARTA AREA SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2022 and 2021

	2022	2021
Academic student assessment:		
Purchased services	$ 11,379	$ 338
Supplies	17,021	6,754
	28,400	7,092
Other instructional staff services		
Purchased services	-	6,300
Supplies	-	2,188
	-	8,488
Total instructional staff services	757,881	549,440
General administrative services:		
Board of education:		
Purchased services	87,025	82,537
Supplies	-	173
Miscellaneous	32,418	15,380
	119,443	98,090
Executive administration:		
Salaries	182,235	207,028
Employee benefits	115,692	132,699
Purchased services	12,978	14,687
Supplies	3,415	2,054
Miscellaneous	10,718	5,422
	325,038	361,890
Total general administrative services	444,481	459,980
School administrative services:		
Office of the principal:		
Salaries	932,735	785,017
Employee benefits	680,307	568,601
Purchased services	7,915	77,394
Office supplies	11,112	9,794
Miscellaneous	4,437	2,916
	1,636,506	1,443,722
Other school administration:		
Miscellaneous	7,696	4,920
Total school administrative services	1,644,202	1,448,642
Business services:		
Fiscal services:		
Salaries	177,042	167,551
Employee benefits	136,013	129,101
Purchased services	42,702	22,615
Supplies	73	113
Capital outlay	480	-
Miscellaneous	4,778	3,563
Payments to other districts	41,752	40,672
	402,840	363,615

(Continued)

SPARTA AREA SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2022 and 2021

	2022	2021
Internal services:		
Purchased services	$ 49,310	$ 39,091
Capital outlay	-	13,000
Miscellaneous	3,375	3,379
	52,685	55,470
Other business services:		
Miscellaneous	23,728	52,531
Total business services	479,253	471,616
Operation and maintenance services:		
Operation and maintenance:		
Salaries	359,262	313,376
Employee benefits	237,189	186,882
Purchased services	1,496,478	1,056,725
Supplies	759,075	579,816
Capital outlay	74,489	408,498
Miscellaneous	8,382	82,865
	2,934,875	2,628,162
Security services		
Salaries	5,000	2,500
Employee benefits	2,703	1,678
Purchased services	81,145	66,679
Supplies	613	-
	89,461	70,857
Total operation and maintenance services	3,024,336	2,699,019
Pupil transportation services:		
Pupil transportation:		
Employee benefits	-	122
Purchased services	1,272,037	1,142,639
Supplies	196,024	106,375
New buses	-	2,369
Miscellaneous	351	-
Payments to other school districts	367,464	312,312
Total pupil transportation services	1,835,876	1,563,817
Central services:		
Communication services:		
Purchased services	714	558
Staff/personnel services:		
Salaries	166,574	135,506
Employee benefits	114,239	89,195
Purchased services	25,254	15,210
Supplies	548	-
Miscellaneous	17,733	7,166
	324,348	247,077

(Continued)

SPARTA AREA SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2022 and 2021

	2022	2021
Technology services:		
Salaries	$ -	$ 33,353
Employee benefits	-	18,163
Purchased services	488,756	457,938
Supplies	5,402	7,090
Capital outlay	56,702	48,437
	550,860	564,981
Pupil accounting:		
Salaries	90,649	38,626
Employee benefits	50,867	19,121
Purchased services	4,143	1,234
Supplies	188	939
Miscellaneous	235	235
	146,082	60,155
Total central services	1,022,004	872,771
Other supporting services:		
Athletics:		
Salaries	289,014	256,860
Employee benefits	135,665	127,156
Purchased services	147,792	148,574
Supplies	36,596	24,886
Capital outlay	-	1,915
Miscellaneous	24,202	12,528
Total other supporting services	633,269	571,919
Total supporting services	12,606,185	10,852,944
Community services:		
Community activities:		
Salaries	1,071	1,233
Employee benefits	841	1,049
Supplies	493	-
	2,405	2,282
Custody/care of children:		
Salaries	42,515	26,315
Employee benefits	31,471	13,616
Purchased services	262,444	261,553
Supplies	24,181	11,515
Capital outlay	30	-
Miscellaneous	10,194	3,000
Payments to other districts	32,200	-
	403,035	315,999
Welfare activities		
Supplies	-	14,546

(Continued)

SPARTA AREA SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2022 and 2021

	2022	2021
Non-public school pupils		
Purchased services	$ 1,033	$ -
Supplies	-	324
Payments to other districts	368	-
	1,401	324
Total community services	406,841	333,151
Capital outlay:		
Site improvement services	11,519	67,169
Other facilities acquisition and construction services	234,376	245,066
	245,895	312,235
Debt service:		
Principal repayment	22,482	20,754
Interest on lease	2,775	4,503
Total debt service	25,257	25,257
Total Expenditures	$ 32,901,728	$ 30,356,882

NONMAJOR GOVERNMENTAL FUNDS

SPARTA AREA SCHOOLS
Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2022

	Special Revenue		Debt Service	
	Food Service	Student/School Activity	2016	2016 Refunding
Assets				
Cash equivalents, deposits and investments	$ 1,212,750	$ 308,794	$ 16,013	$ 3,779
Due from other funds	21,973	1,000	23	16
Due from governmental units	60,112	-	-	-
Inventory	22,406	-	-	-
Total Assets	$ 1,317,241	$ 309,794	$ 16,036	$ 3,795
Liabilities and Fund Balances				
Liabilities				
Accounts payable	$ 26,968	$ 4,529	$ -	$ -
Due to other funds	7,172	18,207	10,273	-
Unearned revenue	65,862	-	-	-
Total Liabilities	100,002	22,736	10,273	-
Fund Balances				
Nonspendable	22,406	-	-	-
Restricted	1,194,833	287,058	5,763	3,795
Total Fund Balances	1,217,239	287,058	5,763	3,795
Total Liabilities and Fund Balances	$ 1,317,241	$ 309,794	$ 16,036	$ 3,795

Debt Service			Capital Projects		
2017 Refunding	2019 Refunding	2021 Refunding	Building and Site	2016 Construction	Total
$ 23,572	$ 29,823	$ 4,834	$ 1,374,106	$ 334,888	$ 3,308,559
66	109	16	9,773	-	32,976
-	-	-	-	-	60,112
-	-	-	-	-	22,406
$ 23,638	$ 29,932	$ 4,850	$ 1,383,879	$ 334,888	$ 3,424,053
$ -	$ -	$ -	$ 14,284	$ 47,671	$ 93,452
-	-	-	230	-	35,882
-	-	-	-	-	65,862
-	-	-	14,514	47,671	195,196
-	-	-	-	-	22,406
23,638	29,932	4,850	1,369,365	287,217	3,206,451
23,638	29,932	4,850	1,369,365	287,217	3,228,857
$ 23,638	$ 29,932	$ 4,850	$ 1,383,879	$ 334,888	$ 3,424,053

SPARTA AREA SCHOOLS
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds
For the year ended June 30, 2022

	Special Revenue		Debt Service	
	Food Service	Student/School Activity	2016	2016 Refunding
Revenues				
Local sources:				
Property taxes	$ -	$ -	$ 404,157	$ 288,684
Interest earnings	2,733	-	427	(397)
Food sales	69,568	-	-	-
Revenue from student activities	-	293,151	-	-
Total local sources	72,301	293,151	404,584	288,287
State sources	52,225	-	9,441	6,743
Federal sources	1,911,259	-	-	-
Total Revenues	2,035,785	293,151	414,025	295,030
Expenditures				
Current:				
Other student/school activity	-	265,058	-	-
Food service	1,615,727	-	-	-
Capital outlay				
Building improvements	-	-	-	-
Debt service:				
Principal repayment	-	-	3,472,000	-
Interest and fiscal charges				
Interest expense	-	-	86,601	340,700
Paying agent fees	-	-	500	500
Bond issuance costs	-	-	133,709	-
Underwriter's discount	-	-	72,320	-
Total Expenditures	1,615,727	265,058	3,765,130	341,200
Excess (Deficiency) of Revenues Over Expenditures	420,058	28,093	(3,351,105)	(46,170)
Other Financing Sources (Uses)				
Proceeds from school bond loan	-	-	30,040	2,130
Proceeds from refinancing debt	-	-	22,600,000	-
Payments to bond escrow agent	-	-	(19,291,971)	-
Total Other Financing Sources (Uses)	-	-	3,338,069	2,130
Net Change in Fund Balances	420,058	28,093	(13,036)	(44,040)
Fund Balances, Beginning of Year	797,181	258,965	18,799	47,835
Fund Balances, End of Year	$ 1,217,239	$ 287,058	$ 5,763	$ 3,795

	Debt Service			Capital Projects		
	2017 Refunding	2019 Refunding	2021 Refunding	Building and Site	2016 Construction	Total
	$ 1,154,731	$ 1,905,307	$ 288,683	$ 663,972	$ -	$ 4,705,534
	1,414	1,353	325	3,614	1,273	10,742
	-	-	-	-	-	69,568
	-	-	-	-	-	293,151
	1,156,145	1,906,660	289,008	667,586	1,273	5,078,995
	26,974	44,506	6,743	15,510	-	162,142
	-	-	-	-	-	1,911,259
	1,183,119	1,951,166	295,751	683,096	1,273	7,152,396
	-	-	-	-	-	265,058
	-	-	-	-	-	1,615,727
	-	-	-	366,746	97,844	464,590
	1,670,000	575,000	-	-	-	5,717,000
	295,200	1,561,101	361,661	-	-	2,645,263
	500	500	-	-	-	2,000
	-	-	-	-	-	133,709
	-	-	-	-	-	72,320
	1,965,700	2,136,601	361,661	366,746	97,844	10,915,667
	(782,581)	(185,435)	(65,910)	316,350	(96,571)	(3,763,271)
	776,413	194,657	70,760	-	-	1,074,000
	-	-	-	-	-	22,600,000
	-	-	-	-	-	(19,291,971)
	776,413	194,657	70,760	-	-	4,382,029
	(6,168)	9,222	4,850	316,350	(96,571)	618,758
	29,806	20,710	-	1,053,015	383,788	2,610,099
	$ 23,638	$ 29,932	$ 4,850	$ 1,369,365	$ 287,217	$ 3,228,857

SPARTA AREA SCHOOLS
Food Service Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2022

	Budget	Actual	Variance
Revenues			
Local sources	$ 45,000	$ 72,301	$ 27,301
State sources	52,000	52,225	225
Federal sources	1,803,000	1,911,259	108,259
Total Revenues	1,900,000	2,035,785	135,785
Expenditures			
Current:			
Food service	1,480,000	1,615,727	(135,727)
Net Change in Fund Balances	420,000	420,058	58
Fund Balances, Beginning of Year	797,181	797,181	-
Fund Balances, End of Year	$ 1,217,181	$ 1,217,239	$ 58

SPARTA AREA SCHOOLS
Student/School Activity Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2022

	Budget	Actual	Variance
Revenues			
Local sources	$ 289,242	$ 293,151	$ 3,909
Expenditures			
Current:			
Other student/school activity	260,350	265,058	(4,708)
Net Change in Fund Balances	28,892	28,093	8,617
Fund Balances, Beginning of Year	258,965	258,965	-
Fund Balances, End of Year	$ 287,857	$ 287,058	$ (799)

SPECIAL REVENUE FUNDS

Food Service—to account for monies received from food service activities and federal subsidies for use in administering the hot lunch program of the District.

Student/School Activity—to account for monies received from student and school activities for use in providing services for school and student groups.

SPARTA AREA SCHOOLS
Food Service Special Revenue Fund
Comparative Balance Sheet
June 30, 2022 and 2021

	2022	2021
Assets		
Cash equivalents, deposits and investments	$ 1,212,750	$ 570,910
Due from other funds	21,973	182,626
Due from other governmental units	60,112	84,463
Inventory	22,406	21,838
Prepaid expenditures	-	2,871
Total Assets	$ 1,317,241	$ 862,708
Liabilities and Fund Balances		
Liabilities		
Accounts payable	$ 26,968	$ 41,304
Due to other funds	7,172	2,872
Unearned revenue	65,862	21,351
Total Liabilities	100,002	65,527
Fund Balances		
Nonspendable	22,406	24,709
Restricted	1,194,833	772,472
Total Fund Balances	1,217,239	797,181
Total Liabilities and Fund Balances	$ 1,317,241	$ 862,708

SPARTA AREA SCHOOLS
Food Service Special Revenue Fund
Comparative Statement of Revenues, Expenditures and Changes in Fund Balances
For the years ended June 30, 2022 and 2021

	2022	2021
Revenues		
Local sources:		
Food sales:		
Adult lunches	$ 2,823	$ 4,566
Ala carte	55,280	34,984
Banquets	11,465	23,203
	69,568	62,753
Interest earnings:		
Interest on deposits and investments	2,733	2,032
Total local sources	72,301	64,785
State sources	52,225	56,385
Federal sources	1,911,259	1,663,740
Total Revenues	2,035,785	1,784,910
Expenditures		
Current:		
Food service:		
Salaries	234,277	260,726
Employee benefits	161,798	143,412
Purchased services	295,615	178,754
Supplies	867,856	736,270
Capital outlay	55,656	54,525
Miscellaneous	525	3,608
Total Expenditures	1,615,727	1,377,295
Net Change in Fund Balances	420,058	407,615
Fund Balances, Beginning of Year	797,181	389,566
Fund Balances, End of Year	$ 1,217,239	$ 797,181

SPARTA AREA SCHOOLS
Student/School Activity Special Revenue Fund
Comparative Balance Sheet
June 30, 2022 and 2021

	2022	2021
Assets		
Cash equivalents, deposits and investments	$ 308,794	$ 251,079
Due from other funds	1,000	13,934
Total Assets	$ 309,794	$ 265,013
Liabilities and Fund Balances		
Liabilities		
Accounts payable	$ 4,529	$ 1,705
Due to other funds	18,207	4,343
Total Liabilities	22,736	6,048
Fund Balances		
Restricted	287,058	258,965
Total Liabilities and Fund Balances	$ 309,794	$ 265,013

SPARTA AREA SCHOOLS
Student/School Activity Special Revenue Fund
Comparative Statement of Revenues, Expenditures and Changes in Fund Balance
For the years ended June 30, 2022 and 2021

	2022	2021
Revenues		
Local sources:		
Revenue from student activities	$ 293,151	$ 121,498
Expenditures		
Current:		
Other student/school activity	265,058	137,847
Excess (Deficiency) of Revenues Over Expenditures	28,093	(16,349)
Other Financing Sources (Uses)		
Transfers in	-	1,130
Net Change in Fund Balance	28,093	(15,219)
Fund Balance, Beginning of Year	258,965	274,184
Fund Balance, End of Year	$ 287,058	$ 258,965

DEBT SERVICE FUNDS

To accumulate property tax revenues and interest earnings for repayment of the bond issues of the District used to finance new building construction projects.

SPARTA AREA SCHOOLS
Debt Service Funds
Combining Balance Sheet
June 30, 2022 (with comparative totals as of June 30, 2021)

	2016	2016 Refunding	2017 Refunding
Assets			
Cash equivalents, deposits and investments	$ 16,013	$ 3,779	$ 23,572
Due from other funds	23	16	66
Total Assets	$ 16,036	$ 3,795	$ 23,638
Liabilities and Fund Balances			
Liabilities			
Due to other funds	$ 10,273	$ -	$ -
Fund Balances			
Restricted	5,763	3,795	23,638
Total Liabilities and Fund Balances	$ 16,036	$ 3,795	$ 23,638

2019 Refunding		2021 Refunding		Totals 2022		Totals 2021	
$	29,823	$	4,834	$	78,021	$	48,790
	109		16		230		76,897
$	29,932	$	4,850	$	78,251	$	125,687
$	-	$	-	$	10,273	$	8,537
	29,932		4,850		67,978		117,150
$	29,932	$	4,850	$	78,251	$	125,687

SPARTA AREA SCHOOLS
Debt Service Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the year ended June 30, 2022 (with comparative totals for the year ended June 30, 2021)

	2016	2016 Refunding	2017 Refunding
Revenues			
Local sources:			
Property taxes:			
Current property taxes	$ 400,249	$ 285,893	$ 1,143,569
Industrial facilities taxes	3,348	2,391	9,563
Delinquent and other property taxes	210	150	600
Interest on delinquent taxes	350	250	999
	404,157	288,684	1,154,731
Interest earnings:			
Interest on deposits and investments	427	(397)	1,414
Total local sources	404,584	288,287	1,156,145
State sources	9,441	6,743	26,974
Total Revenues	414,025	295,030	1,183,119
Expenditures			
Current:			
Debt service:			
Principal repayment	3,472,000	-	1,670,000
Interest and fiscal charges:			
Interest expense	86,601	340,700	295,200
Paying agent fees	500	500	500
Bond issuance costs	133,709	-	-
Underwriter's discount	72,320	-	-
Total Expenditures	3,765,130	341,200	1,965,700
Deficiency of Revenues Over Expenditures	(3,351,105)	(46,170)	(782,581)
Other Financing Sources (Uses)			
Proceeds from school bond loan fund	30,040	2,130	776,413
Proceeds from refinancing debt	22,600,000	-	-
Transfers in	-	-	-
Transfers out	-	-	-
Payments to bond escrow agent	(19,291,971)	-	-
Total Other Financing Sources (Uses)	3,338,069	2,130	776,413
Net Change in Fund Balances	(13,036)	(44,040)	(6,168)
Fund Balances, Beginning of Year	18,799	47,835	29,806
Fund Balances, End of Year	$ 5,763	$ 3,795	$ 23,638

2019 Refunding	2021 Refunding	Totals 2022	Totals 2021
$ 1,886,889	$ 285,892	$ 4,002,492	$ 3,758,353
15,780	2,391	33,473	22,741
990	150	2,100	67,828
1,648	250	3,497	3,892
1,905,307	288,683	4,041,562	3,852,814
1,353	325	3,122	3,891
1,906,660	289,008	4,044,684	3,856,705
44,506	6,743	94,407	96,724
1,951,166	295,751	4,139,091	3,953,429
575,000	-	5,717,000	2,520,000
1,561,101	361,661	2,645,263	3,173,457
500	-	2,000	1,000
-	-	133,709	-
-	-	72,320	-
2,136,601	361,661	8,570,292	5,694,457
(185,435)	(65,910)	(4,431,201)	(1,741,028)
194,657	70,760	1,074,000	1,557,879
-	-	22,600,000	-
-	-	-	74,524
-	-	-	(74,524)
-	-	(19,291,971)	-
194,657	70,760	4,382,029	1,557,879
9,222	4,850	(49,172)	(183,149)
20,710	-	117,150	300,299
$ 29,932	$ 4,850	$ 67,978	$ 117,150

CAPITAL PROJECTS FUNDS

Building and Site – to account for property tax revenues and interest earnings used to finance building restoration projects.

2016 Construction – to account for bond proceeds used to finance building construction and improvement projects.

2019 Construction – to account for bond proceeds used to finance building construction and improvement projects.

SPARTA AREA SCHOOLS
Building and Site Capital Projects Fund
Comparative Balance Sheet
June 30, 2022 and 2021

	2022	2021
Assets		
Cash equivalents, deposits and investments	$ 1,374,106	$ 1,042,824
Due from other funds	9,773	11,391
Total Assets	$ 1,383,879	$ 1,054,215
Liabilities and Fund Balances		
Liabilities		
Accounts payable	$ 14,284	$ 1,200
Due to other funds	230	-
Total Liabilities	14,514	1,200
Fund Balances		
Restricted	1,369,365	1,053,015
Total Liabilities and Fund Balances	$ 1,383,879	$ 1,054,215

SPARTA AREA SCHOOLS
Building and Site Capital Projects Fund
Comparative Statement of Revenues, Expenditures and Changes in Fund Balances
For the years ended June 30, 2022 and 2021

	2022	2021
Revenues		
Local sources:		
Property taxes:		
Current property taxes	$ 657,554	$ 617,445
Industrial facilities taxes	5,499	3,736
Delinquent and other property taxes	345	11,391
Interest on delinquent taxes	574	392
	663,972	632,964
Interest earnings:		
Interest on deposits and investments	3,614	1,782
Total local sources	667,586	634,746
State sources	15,510	15,890
Total Revenues	683,096	650,636
Expenditures		
Current:		
Capital outlay:		
Building improvements	366,746	233,649
Net Change in Fund Balances	316,350	416,987
Fund Balances, Beginning of Year	1,053,015	636,028
Fund Balances, End of Year	$ 1,369,365	$ 1,053,015

SPARTA AREA SCHOOLS
2016 Construction Capital Projects Fund
Comparative Balance Sheet
June 30, 2022 and 2021

	2022	2021
Assets		
Cash equivalents, deposits and investments	$ 334,888	$ 383,788
Liabilities and Fund Balance		
Liabilities		
Accounts payable	$ 47,671	$ -
Fund Balance		
Restricted	287,217	383,788
Total Liabilities and Fund Balance	$ 334,888	$ 383,788

SPARTA AREA SCHOOLS
2016 Construction Capital Projects Fund
Comparative Statement of Revenues, Expenditures and Changes in Fund Balance
For the years ended June 30, 2022 and 2021

	2022	2021
Revenues		
Local sources:		
Interest on deposits and investments	$ 1,273	$ 1,548
Expenditures		
Current:		
Capital outlay:		
Building improvements	97,844	47,541
Total Expenditures	97,844	47,541
Net Change in Fund Balance	(96,571)	(45,993)
Fund Balance, Beginning of Year	383,788	429,781
Fund Balance, End of Year	$ 287,217	$ 383,788

SPARTA AREA SCHOOLS
2019 Construction Capital Projects Fund
Comparative Balance Sheet
June 30, 2022 and 2021

	2022	2021
Assets		
Cash equivalents, deposits and investments	$ 1,928,609	$ 5,408,768
Liabilities and Fund Balance		
Liabilities		
Accounts payable	$ 267,667	$ 857,261
Due to other funds	-	5,894
Total Liabilities	267,667	863,155
Fund Balance		
Restricted	1,660,942	4,545,613
Total Liabilities and Fund Balance	$ 1,928,609	$ 5,408,768

SPARTA AREA SCHOOLS
2019 Construction Capital Projects Fund
Comparative Statement of Revenues, Expenditures and Changes in Fund Balance
For the years ended June 30, 2022 and 2021

	2022	2021
Revenues		
Local sources:		
Interest on deposits and investments	$ 5,261	$ 143,531
Other local sources	39,031	-
Total local sources	44,292	143,531
Total Revenues	44,292	143,531
Expenditures		
Current:		
Capital outlay:		
Site acquisition services	-	6,166
Architect and engineering fees	140,743	719,521
Construction manager fees	75,541	520,782
Building improvements	1,614,980	10,749,142
Equipment and furniture	1,097,699	926,691
Total Expenditures	2,928,963	12,922,302
Net Change in Fund Balance	(2,884,671)	(12,778,771)
Fund Balance, Beginning of Year	4,545,613	17,324,384
Fund Balance, End of Year	$ 1,660,942	$ 4,545,613

SPARTA AREA SCHOOLS
Kent County, Michigan

Additional Reports Required by
the Uniform Guidance

For the year ended June 30, 2022

Hungerford Nichols CPAs + Advisors
Where good ideas add up

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SPARTA AREA SCHOOLS
For the year ended June 30, 2022

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

October 31, 2022

The Board of Education
Sparta Area Schools
Kent County, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Sparta Area Schools, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise Sparta Area Schools' basic financial statements, and have issued our report thereon dated October 31, 2022.

Report on Internal Control over Financial Reporting

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

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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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Sparta Area Schools' 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.

Hungerford Nichols

Certified Public Accountants
Grand Rapids, Michigan

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

October 31, 2022

The Board of Education
Sparta Area Schools
Kent County, Michigan

Report on Compliance for Major Federal Program

Opinion on Each Major Federal Program

We have audited Sparta Area Schools' compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of Sparta Area Schools' major federal programs for the year ended June 30, 2022. Sparta Area Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Sparta Area Schools complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

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

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Sparta Area Schools' compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.

- Obtain an understanding of Sparta Area Schools' internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Sparta Area Schools' internal control over compliance. Accordingly, no such opinion is expressed.

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

Report on Internal Control over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

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

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

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Sparta Area Schools, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise of Sparta Area Schools' basic financial statements. We issued our report thereon dated October 31, 2022, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Hungerford Nichols

Certified Public Accountants
Grand Rapids, Michigan

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SPARTA AREA SCHOOLS
For the year ended June 30, 2022

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount
U. S. Department of Education		
Passed through Michigan Department of Education (MDE):		
Title I, Part A:	84.010	
211530 2021		$ 381,728
221530 2122		389,177
Total Title I, Part A		770,905
Title I, Part C:	84.011	
211890 2021		76,793
Total Title I, Part C		76,793
Title III, Part A:	84.365	
210580 2021		32,036
220580 2122		34,448
Total Title III, Part A		66,484
Title II, Part A:	84.367	
210520 2021		141,002
220520 2122		126,257
Total Title II, Part A		267,259
Title IV, Part A:	84.424	
210750 2021		26,327
220750 2122		27,790
Total Title IV, Part A		54,117
Adult Education English Literacy Civics	84.002	
211120 215067		149,201
211130 211067		177,500
221120 225067		150,767
221130 221067		182,192
Total Adult Education		659,660

See Notes to Schedule of Expenditures of Federal Awards

Accrued (Deferred) Revenue At July 1, 2021	(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue At June 30, 2022
$ 120,855	$ 367,241	$ -	$ 120,855	$ -
-	-	373,699	216,159	157,540
120,855	367,241	373,699	337,014	157,540
32,012	62,003	-	32,012	-
32,012	62,003	-	32,012	-
2,024	5,871	-	2,024	-
-	-	34,448	-	34,448
2,024	5,871	34,448	2,024	34,448
18,610	89,841	-	18,610	-
-	-	110,912	90,106	20,806
18,610	89,841	110,912	108,716	20,806
8,140	26,327	-	8,140	-
-	-	24,304	14,362	9,942
8,140	26,327	24,304	22,502	9,942
20,402	126,849	-	20,402	-
19,561	106,277	-	19,561	-
-	-	140,177	102,341	37,836
-	-	160,290	111,005	49,285
39,963	233,126	300,467	253,309	87,121

SPARTA AREA SCHOOLS
For the year ended June 30, 2022

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount
Education Stabilization Fund:	84.425	
211202 2122 GEER II - Teacher & Support Staff Payments	84.425C	$ 57,000
213712 20-21 ESSER Formula Funds II	84.425D	1,317,923
213722 2122 ESSER II - Summer Programming K-8	84.425D	319,000
213742 2122 ESSER II - Credit Recovery 9-12	84.425D	66,000
213752 2122 ESSER II - Before and After School Program	84.425D	25,000
213713 2122 ARP/ESSER III	84.425U	2,961,973
Total Education Stabilization Fund		4,746,896
Total Passed Through MDE		6,642,114
Passed through Kent Intermediate School District (KISD):		
Special Education Cluster:		
I.D.E.A. Grants to States:	84.027	
210450 2021		753,045
220450 2122		786,473
221280 2122 IDEA ARP Flowthrough	84.027X	92,618
Total I.D.E.A. Grants to States		1,632,136
I.D.E.A. Preschool:	84.173	
210460 2021		31,728
220460 2122		27,349
221285 2122 IDEA ARP Preschool	84.173X	3,791
Total I.D.E.A. Preschool		62,868
Total Special Education Cluster		1,695,004
Total Passed Through KISD		1,695,004
Total U.S. Department of Education		8,337,118

See Notes to Schedule of Expenditures of Federal Awards

Accrued (Deferred) Revenue At July 1, 2021	(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue At June 30, 2022
$ -	$ -	$ 57,000	$ 57,000	$ -
-	-	1,273,768	954,720	319,048
-	-	127,422	106,344	21,078
-	-	11,632	10,778	854
-	-	25,000	25,000	-
-	-	56,684	-	56,684
-	-	1,551,506	1,153,842	397,664
221,604	784,409	2,395,336	1,909,419	707,521
215,195	753,045	-	215,195	-
-	-	786,473	579,124	207,349
-	-	92,618	39,312	53,306
215,195	753,045	879,091	833,631	260,655
9,442	31,728	-	9,442	-
-	-	27,349	22,175	5,174
-	-	6,791	3,474	3,317
9,442	31,728	34,140	35,091	8,491
224,637	784,773	913,231	868,722	269,146
224,637	784,773	913,231	868,722	269,146
446,241	1,569,182	3,308,567	2,778,141	976,667

SPARTA AREA SCHOOLS
For the year ended June 30, 2022

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount
U.S. Department of Health and Human Services		
Passed through Kent Intermediate School District (KISD):		
Health Resource Advocate (HRA) Funding:	93.323	
2122 HRA Funding		$ 50,541
Total Health Resource Advocate (HRA) Funding		50,541
Medical Assistance Program:	93.778	
2122 Medicaid Outreach		11,288
Total Medical Assistance Program		11,288
Total U.S. Department of Treasury		61,829
U.S. Department of Agriculture		
Passed through Michigan Department of Education (MDE):		
Nutrition Cluster:		
Non-Cash Assistance (U.S.D.A. Commodities):	10.555	
Entitlement Commodities		84,887
Total Non-Cash Assistance		84,887
Cash Assistance:		
Seamless Summer Option - Breakfast:	10.553	
211971		59,644
221971		394,557
Total Seamless Summer Option - Breakfast		454,201
Seamless Summer Option - Lunch:	10.555	
211961		177,432
220910		48,280
221961		1,076,781
Total Seamless Summer Option - Lunch		1,302,493

See Notes to Schedule of Expenditures of Federal Awards

Accrued (Deferred) Revenue At July 1, 2021	(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue At June 30, 2022
$ -	$ -	$ 50,541	$ -	$ 50,541
-	-	50,541	-	50,541
-	-	11,288	11,288	-
-	-	11,288	11,288	-
-	-	61,829	11,288	50,541
-	-	84,887	84,887	-
-	-	84,887	84,887	-
-	-	59,644	59,644	-
-	-	394,557	379,623	14,934
-	-	454,201	439,267	14,934
-	-	177,432	177,432	-
-	-	-	48,280	(48,280)
-	-	1,076,781	1,042,434	34,347
-	-	1,254,213	1,268,146	(13,933)

SPARTA AREA SCHOOLS
For the year ended June 30, 2022

Federal Grantor Pass Through Grantor Program Title Grant Number	**Federal CFDA Number**	**Approved Grant Award Amount**
Summer Food Service Program	10.559	
210904		$ 1,352,880
220904		10,831
Total Summer Food Service Program		1,363,711
Total Cash Assistance		3,120,405
Total Nutrition Cluster		3,205,292
Pandemic EBT Local Level Costs:	10.649	
210980 2021		3,063
Total U.S. Department of Agriculture		3,208,355
Total Federal Financial Assistance		$ 11,607,302

See Notes to Schedule of Expenditures of Federal Awards

Accrued (Deferred) Revenue At July 1, 2021	(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue At June 30, 2022
$ 77,676	$ 1,245,753	$ 107,127	$ 184,803	$ -
-	-	10,831	-	10,831
77,676	1,245,753	117,958	184,803	10,831
77,676	1,245,753	1,826,372	1,892,216	11,832
77,676	1,245,753	1,911,259	1,977,103	11,832
-	-	3,063	3,063	-
77,676	1,245,753	1,914,322	1,980,166	11,832
$ 523,917	$ 2,814,935	$ 5,284,718	$ 4,769,595	$ 1,039,040

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

SPARTA AREA SCHOOLS
For the year ended June 30, 2022

Note A – Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Sparta Area Schools under programs of the federal government for the year ended June 30, 2022. The information in this Schedule is presented in accordance with requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Sparta Area Schools, it is not intended to and does not present the financial position, changes in net position, or cash flows, as applicable, of Sparta Area Schools.

Note B – Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the same basis of accounting as the basic financial statements. Such expenditures are recognized following the cost principles contained in Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note C – Indirect Cost Rate

Sparta Area Schools has elected not to use the 10% de minimus indirect cost rate as allowed under the Uniform Guidance.

Note D – Grant Section Auditor Report

Management has utilized the MDE NexSys Grant Application and Cash Management System, and the Grant Auditor Report (GAR) in preparing the Schedule of Expenditures of Federal Awards.

Note E – Non-Cash Assistance

The amounts reported on the Recipient Entitlement Balance Report, or PAL Report, agree with the SEFA for USDA donated food commodities.

SPARTA AREA SCHOOLS
For the year ended June 30, 2022

Note F – Federal Income Reconciliation

	Grant Expenditures Per Schedule of Federal Financial Assistance	Federal Revenue Per Financial Statements	Difference	
Title I, Part A	$ 373,699	$ 373,699	$ -	
Title III, Part A	34,448	34,448	-	
Title II, Part A	110,912	110,912	-	
Title IV, Part A	24,304	24,304	-	
Adult Education	300,467	300,467	-	
Health Resource Advocate Funding	50,541	50,541	-	
Medical Assistance Program	11,288	11,288	-	
ESSER Stabilization Funds	1,551,506	1,551,506	-	
Special Education Cluster	913,231	913,231	-	
Nutrition Cluster	1,911,259	1,911,259	-	
Pandemic EBT Local Level Costs	3,063	3,063	-	
ARP Child Care Stabilization Funds	-	202,064	(202,064)	*
	$ 5,284,718	$ 5,486,782	$ (202,064)	

* The difference in Federal expenditures to Federal revenue per the financial statements is due to the determination made by the Office of Child Development & Care (CDC) that deemed recipients of Child Care Stabilization portion of the Child Care and Development Grants to be beneficiaries, not subrecipients.

SPARTA AREA SCHOOLS
For the year ended June 30, 2022

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	*Unmodified*
Internal control over financial reporting:	
• Material weakness(es) identified?	____ Yes X No
• Significant deficiency(ies) identified?	____ Yes X None reported
Noncompliance material to financial statements noted?	____ Yes X No

Federal Awards

Internal control over major programs:	
• Material weakness(es) identified?	____ Yes X No
• Significant deficiency(ies) identified?	____ Yes X None reported
Type of auditor's report issued on compliance for major programs:	*Unmodified*
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?	____ Yes X No
Identification of major programs audited:	Special Education Cluster
	84.027 IDEA Grants to States
	84.173 IDEA Preschool
	84.425 Education Stabilization Funds

SPARTA AREA SCHOOLS
For the year ended June 30, 2022

Section I - Summary of Auditor's Results (Continued)

Dollar threshold used to distinguish between Type A and Type B programs:	$750,000			
Auditee qualified as a low-risk auditee?	X	Yes		No

Section II - Financial Statements Audit Findings

There were no findings that are required to be reported under *Government Auditing Standards.*

Section III – Major Federal Award Programs Findings and Questioned Costs

There were no findings that are required to be reported under *Government Auditing Standards.*

Hungerford Nichols CPAs + Advisors
Where good ideas add up

October 31, 2022

The Board of Education
Sparta Area Schools
Kent County, Michigan

We have audited the financial statements of the governmental activities, the major fund and the aggregate remaining fund information of Sparta Area Schools for the year ended June 30, 2022. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and Government Auditing Standards and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 18, 2022. Professional standards also require that we communicate to you the following information related to our audit.

<u>Significant Audit Matters</u>

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Sparta Area Schools are described in the notes to the financial statements. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

> Management's estimate of the liability of the payout for the employee compensated absences upon their retirement is based on expected payout. We evaluated the key factors and assumptions used to develop the balance of compensated absences in determining that it is reasonable in relation to the financial statements taken as a whole.
>
> Management's estimate of the lives of capital assets. We evaluated the key factors and assumptions used to develop the estimated life span of the capital assets in determining that it is reasonable in relation to the financial statements taken as a whole. Certain amounts included in capital assets have been estimated by appraisers based on historical information for assets placed in service prior to implementation of GASB Statement No. 34.

Certain financial statement disclosures are particularly sensitive because of their significance to the financial statement users. The most sensitive disclosures affecting the financial statements were related to the District's share of the net pension and net OPEB liabilities related to GASB Statements No. 68 and 75.

> The disclosure of the net pension liability and the net OPEB liability in the Notes to the financial statements were recorded as of June 30, 2022 based on information received from the Michigan Office of Retirement Services. We evaluated the key factors and assumptions used to develop these liabilities in determining that it is reasonable in relation to the financial statements taken as a whole.

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole. There were no significant adjustments derived from the audit process.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 31, 2022.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Per 7 CFR Part 210.14(b), and as detailed in the Michigan Department of Education (MDE) School Auditing Manual, the District must limit its net cash resources in the Food Service Fund to an amount that does not exceed 3 months average expenditures for its nonprofit school food service. Due to the impact of the COVID-19 pandemic on the School Nutrition Program, which resulted in increased reimbursement rates for meals served, many school districts in the State, including Sparta Area Schools, now have an excess fund balance and must work with MDE to gain approval of a spend down plan for the subsequent school year. To assist in MDE monitoring efforts, all CPA firms performing audits of school districts in Michigan have been asked to identify districts with excess fund balance though this required communication with governance. An audit finding has not been included in the Single Audit report that accompanies this letter, as excess fund balance requirements are not detailed in the Office of Management and Budget's Compliance Supplement for the Child Nutrition Cluster of Programs.

Other Matters

We applied certain limited procedures to the Management's Discussion and Analysis and Schedules related to the Proportionate Share and Contributions of the District's Net Pension and Net OPEB Liabilities, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

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

Other Comments

The District General Fund balance increased by $1,396,709 to $8,259,313 at June 30, 2022. This balance represents approximately 23.67% of the District's 2022-23 expenditure budget (up from 21.59% at June 30, 2021). It is the policy of the Board of Education of Sparta Area Schools to maintain a General Fund balance of at least 10% of subsequent year expenditures. This gives the District more stable operating funds during the year, helps avoid or reduce the necessity of borrowing for short-term cash flow purposes and acts as a buffer against the uncertainty of state aid revenues accruing to the District.

Closing

This communication is intended solely for the information and use of the Sparta Area Schools Board of Education and management and is not intended to be, and should not be, used by anyone other than these specified parties. We have furnished a copy of this letter to the Michigan Departments of Education and Treasury as an enclosure with the audited financial statements as required by the State of Michigan.

Hungerford Nichols

Certified Public Accountants