
Sturgis Public School District

**Financial Report
with Supplementary Information
June 30, 2025**

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Independent Auditor's Report

To the Board of Education
Sturgis Public School District

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Sturgis Public School District (the "School District") as of and for the year ended June 30, 2025 and the related notes to the financial statements, which collectively comprise Sturgis Public School District's basic financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Sturgis Public School District as of June 30, 2025 and the respective changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Emphasis of Matter

As discussed in Note 2 to the financial statements, the School District adopted the provisions of Government Accounting Standards Board Statement No. 101, *Compensated Absences*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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 School District's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

To the Board of Education
Sturgis Public School District

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 GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplementary information, as identified 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, which 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.

To the Board of Education
Sturgis Public School District

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Sturgis Public School District's basic financial statements. As identified in the table of contents, the supplementary information is presented for the purpose of additional analysis 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 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 supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2025 on our consideration of Sturgis Public School District's 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 Sturgis Public School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Sturgis Public School District's internal control over financial reporting and compliance.



October 6, 2025

This section of the annual financial report for Sturgis Public School District (the "School District") presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2025. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Using This Annual Report

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

Management's Discussion and Analysis (MD&A) (Required Supplementary Information)

Basic Financial Statements

Government-wide Financial Statements

Fund Financial Statements

Notes to Financial Statements

Required Supplementary Information

Budgetary Comparison Schedule - General Fund

Schedule of Proportionate Share of the Net Pension Liability

Schedule of Pension Contributions

Schedule of Proportionate Share of the Net OPEB (Asset) Liability

Schedule of OPEB Contributions

Supplementary Information

Reporting the School District as a Whole - Government-wide Financial Statements

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

These two statements report the School District's net position - the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources, as reported in the statement of net position - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net position, as reported in the statement of activities, are indicators of whether its financial health is improving or deteriorating. The relationship between revenue and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

Sturgis Public School District

Management's Discussion and Analysis (Continued)

The statement of net position and the statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, support services, community services, athletics, and food services. Property taxes, unrestricted state aid (foundation allowance revenue), and state and federal grants finance most of these activities.

Reporting the School District's Fund Financial Statements

The School District's fund financial statements provide detailed information about the most significant funds, not the School District as a whole. Some funds are required to be established by state law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Food Service Fund is an example) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects).

Governmental Funds

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

The School District as a Whole

Recall that the statement of net position provides the perspective of the School District as a whole. The following table provides a summary of the School District's net position as of June 30, 2025 and 2024:

	Governmental Activities	
	2025	2024
	(in millions)	
Assets		
Current and other assets	\$ 29.4	\$ 23.2
Capital assets	52.1	51.5
Total assets	81.5	74.7
Deferred Outflows of Resources	13.5	18.1
Liabilities		
Current liabilities	4.5	5.5
Noncurrent liabilities	19.2	21.9
Net pension liability	39.3	51.3
Total liabilities	63.0	78.7
Deferred Inflows of Resources	25.4	19.4
Net Position (Deficit)		
Net investment in capital assets	34.0	30.7
Restricted	8.6	0.9
Unrestricted	(36.0)	(36.9)
Total net position (deficit)	<u>\$ 6.6</u>	<u>\$ (5.3)</u>

Sturgis Public School District

Management's Discussion and Analysis (Continued)

The above analysis focuses on net position. The change in net position of the School District's governmental activities is discussed below. The School District's net position was \$6.6 million at June 30, 2025. Net investment in capital assets totaling \$34.0 million compares the original cost, less depreciation of the School District's capital assets, to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use that net position for day-to-day operations. The remaining amount of net position (deficit), \$(36.0) million, was unrestricted.

The \$(36.0) million in unrestricted net position (deficit) of governmental activities represents the accumulated results of all past years' operations and the impact from the previous adoption of GASB Statement Nos. 68 and 75 (recording the School District's share of the net pension and OPEB liabilities (asset) from the state-managed retirement system). Unrestricted net position, when available, would enable the School District to meet working capital and cash flow requirements, as well as to provide for future uncertainties. The operating results of the General Fund and the change in the net pension and OPEB liabilities (asset) will have a significant impact on the change in unrestricted net position from year to year.

The results of this year's operations for the School District as a whole are reported in the condensed statement of activities below, which shows the changes in net position for the years ended June 30, 2025 and 2024:

	Governmental Activities	
	2025	2024
	(in millions)	
Revenue		
Program revenue:		
Charges for services	\$ 0.2	\$ 0.2
Operating grants	16.6	17.5
General revenue:		
Taxes	8.4	7.9
State aid not restricted to specific purposes	24.0	25.2
Other	1.6	1.7
Total revenue	50.8	52.5
Expenses		
Instruction	18.7	19.8
Support services	12.1	12.2
Athletics	0.7	0.7
Food services	2.6	2.2
Community services	0.3	0.3
Debt service	0.5	0.6
Depreciation expense (unallocated)	2.2	2.2
Total expenses	37.1	38.0
Change in Net Position	13.7	14.5
Net Position (Deficit) - Beginning of year, as previously reported	(5.3)	(19.8)
Adoption of GASB 101 (Note 2)	(1.8)	-
Net Position (Deficit) - Beginning of year, as restated	(7.1)	(19.8)
Net Position (Deficit) - End of year	\$ 6.6	\$ (5.3)

As reported in the statement of activities, the cost of all of our governmental activities this year was \$37.1 million. Certain activities were partially funded from those who benefited from the programs (\$0.2 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$16.6 million). We paid for the remaining public benefit portion of our governmental activities with \$8.4 million in taxes, \$24.0 million in state foundation allowance, and other revenue (i.e., interest and general entitlements).

Sturgis Public School District

Management's Discussion and Analysis (Continued)

The School District experienced an increase in net position of \$13.7 million. This figure represents the net difference between revenue and function/program expenses. The district was able to utilize a variety of funding over the past few years on many one-time projects that enhanced the districts infrastructure. While many of these funds were grants, for which the revenue is offset by expenditures, some of the revenue allowed for the School District to shift current year expenditures to be covered fully or partially by the funds received. Fluctuation in the net position is attributable to the changes in the MPSERS for the pension and OPEB balances.

As discussed above, the net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted state aid constitute the vast majority of district operating revenue sources, the Board of Education and administration must annually evaluate the needs of the School District and balance those needs with state-prescribed available unrestricted resources.

During the current year, the School District adopted GASB Statement No. 101, *Compensated Absences*. As a result, the intermediate school district is required to restate liabilities for compensated absences to be recognized for leave that has not been used and leave that has been used but not yet paid in cash or settled through noncash means. The financial statements for the year ended June 30, 2024 show a restatement of net position (deficit) of \$1.8 million in order to adopt GASB Statement No. 101.

The School District's Funds

As we noted earlier, the School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

As the School District completed this year, the governmental funds reported a combined fund balance of \$18.2 million, which is an increase of \$1.3 million from last year. The primary reasons for the increase are as follows:

In the General Fund, our principal operating fund, fund balance increased by approximately \$1.3 million to approximately \$11.8 million. The change is mainly due to the flexibility of the grant dollars that the School District received, which allowed the School District to use the grant dollars to assist in many different day-to-day operations within the School District.

The combined fund balance of our special revenue funds decreased by \$0.4 million to approximately 1.3 million. This is mostly tied to our Food Service Fund, which decreased fund balance. With the Board of Education's approval to move forward with transitioning to a food service partner during the 2024-2025 school year, the district spent some of the Food Service Fund balance to go toward kitchen equipment upgrades in order to keep up with the expected higher demand meal productions.

The combined fund balance of our debt service funds increased by approximately \$168,000. Debt fund millage rates stayed the same at 7 mills to satisfy our debt fund obligations. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. Debt service funds fund balances are restricted since they can only be used to pay debt service obligations.

The combined fund balance of our capital projects funds increased by \$0.2 million. This increase is primarily due to the following reasons:

- In the Public Improvement Fund, there was a transfer from the General Fund in the amount of \$1,660,800 and expenditures in the amount of approximately \$2,457,583. This transfer from the General Fund will allow the district to continue to complete district projects in the 2025-2026 school year. Some of the 2024-2025 projects that were completed were portions of the Middle School flooring/furniture project, the Middle School tennis court project, upgrades to our bus and van fleet, district-wide door improvements, and scoreboard and sound system additions.
- The Building and Site Sinking Fund had revenue of \$977,025 and expenditures of \$78,436. The BSSF allocated funds for district technology, portions of the Middle School flooring/furniture project, and the Middle School tennis court project.

Sturgis Public School District

Management's Discussion and Analysis (Continued)

- In the Energy Conservation Improvement Fund, there was a transfer from the General Fund in the amount of approximately \$135,000 and expenditures of approximately \$134,000. This project was completed during the 2020-2021 school year, and the transfers from the General Fund will satisfy all debt obligations moving forward. As a result of lower utility bills due to this project, these savings are transferred from the General Fund to satisfy the debt payments.

General Fund Budgetary Highlights

Over the course of the year, the School District revises its budget as it attempts to deal with unexpected changes in revenue and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was adopted in June 2025. A schedule showing the School District’s original and final budget amounts compared with amounts actually paid and received is provided in the required supplementary information of these financial statements.

There were significant revisions made to the 2024-2025 original budget. Budgeted revenue decreased by roughly \$120 thousand due to a few main factors, including minor increases in local, federal, and interdistrict revenue, coupled with a decrease of state revenue by approximately \$1 million. Other revenue changes would include recognizing actual per pupil allocations based on fall and spring pupil count, actual interest income revenue, actual tax revenue received, and other miscellaneous local revenue. Other expenditure changes would include recognizing actual staffing levels and actual wages and benefits of staff.

Budgeted expenditures increased by approximately \$669 thousand to account for the recognition of actual salaries and benefits of staff and account for the expenses tied to the new federal grants that were awarded to the School District. The School District did not transfer any money to any other funds during the school year.

See Note 3 to the financial statements for the variances between final budget and actual amount.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2025, the School District had \$52.1 million invested in a broad range of capital assets, including land, buildings, vehicles, furniture, and equipment. This represents a net increase (including additions, disposals, and depreciation) of approximately \$630 thousand from 2024 to 2025.

	2025	2024
Land	\$ 421,450	\$ 421,450
Buildings and improvements	46,477,446	47,172,869
Furniture and equipment	4,077,671	2,827,569
Buses and other vehicles	1,141,913	1,064,156
Total capital assets - Net of accumulated depreciation	\$ 52,118,480	\$ 51,486,044

We present more detailed information about our capital assets in the notes to the financial statements.

Debt

At the end of this year, the School District had \$14.7 million in bonds outstanding versus \$17.9 million in the previous year.

Those bonds consisted of the following:

	2025	2024
General obligation bonds	\$ 14,650,000	\$ 17,890,000

The School District’s general obligation bond rating is Aa2 . 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 the School District’s boundaries. If the School District issues qualified debt (i.e., debt backed by the State of Michigan), such obligations are not subject to this debt limit. The School District’s outstanding unqualified general obligation debt is below the statutorily imposed limit.

Sturgis Public School District

Management's Discussion and Analysis (Continued)

In addition, the School District participates in the School Loan Revolving Fund, which had \$1.8 million in debt outstanding versus \$2.0 million in the previous year. Other obligations include accrued vacation pay and sick leave. In addition, the School District adopted GASB Statement No. 101, *Compensated Absences*, during the current year, causing a restatement of the June 30, 2024 balance for compensated absences. We present more detailed information about our long-term liabilities in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration consider many factors when setting the School District's 2025-2026 fiscal year budget. One of the most important factors affecting the budget is our student count. The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The 2025-2026 budget was adopted in June 2025 based on an estimate of students who will enroll in September 2025.

Since the School District's revenue is heavily dependent on state funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenue to fund its appropriation to the School District. The State periodically holds a Revenue Estimating Conference to estimate revenue. Based on the results of the most recent conference, the State estimates funds are sufficient to fund the appropriation.

Sturgis Public School District

Statement of Net Position

June 30, 2025

	<u>Governmental Activities</u>
Assets	
Cash and investments (Note 4)	\$ 12,998,840
Receivables - Due from other governments	7,588,812
Inventories	48,413
Prepaid costs	150,105
Restricted assets (Note 4)	1,794,862
Net OPEB asset (Note 10)	6,866,902
Capital assets:	
Assets not subject to depreciation (Note 6)	421,450
Assets subject to depreciation - Net (Note 6)	<u>51,697,030</u>
Total assets	81,566,414
Deferred Outflows of Resources	
Deferred pension costs (Note 10)	11,669,262
Deferred OPEB costs (Note 10)	<u>1,785,468</u>
Total deferred outflows of resources	13,454,730
Liabilities	
Accounts payable	378,902
Accrued payroll and other liabilities	3,189,174
Unearned revenue (Note 5)	877,314
Noncurrent liabilities:	
Due within one year (Note 8)	5,267,865
Due in more than one year (Note 8)	13,960,810
Net pension liability (Note 10)	<u>39,309,222</u>
Total liabilities	62,983,287
Deferred Inflows of Resources	
Deferred benefit on bond refunding	1,185,668
Revenue in support of pension contributions made subsequent to the report date (Note 10)	2,168,743
Deferred pension cost reductions (Note 10)	12,746,257
Deferred OPEB cost reductions (Note 10)	<u>9,340,901</u>
Total deferred inflows of resources	<u>25,441,569</u>
Net Position	
Net investment in capital assets	34,051,001
Restricted:	
Debt service	110,105
Capital projects	1,611,502
Net OPEB asset	6,866,902
Unrestricted	<u>(36,043,222)</u>
Total net position	<u><u>\$ 6,596,288</u></u>

Sturgis Public School District

Statement of Activities

Year Ended June 30, 2025

Functions/Programs	Program Revenue			Governmental
	Expenses	Charges for Services	Operating Grants and Contributions	Activities
				Net (Expense) Revenue and Changes in Net Position
Primary government - Governmental activities:				
Instruction	\$ 18,752,193	\$ -	\$ 9,678,560	\$ (9,073,633)
Support services	12,051,884	-	4,779,220	(7,272,664)
Athletics	668,030	70,874	-	(597,156)
Food services	2,633,738	37,127	2,193,231	(403,380)
Community services	294,189	48,784	-	(245,405)
Interest	338,371	-	-	(338,371)
Other debt costs	131,912	-	-	(131,912)
Depreciation expense (unallocated) (Note 6)	2,185,564	-	-	(2,185,564)
Total primary government	\$ 37,055,881	\$ 156,785	\$ 16,651,011	(20,248,085)
General revenue:				
Taxes:				
Property taxes levied for general purposes				3,623,470
Property taxes levied for debt service				3,842,390
Property taxes levied for sinking fund				932,382
State aid not restricted to specific purposes				23,977,042
Federal grants and contributions not restricted to specific purposes				90,729
Interest and investment earnings				597,667
Other				887,055
Total general revenue				33,950,735
Change in Net Position				13,702,650
Net Position (Deficit) - Beginning of year, as previously reported				(5,296,298)
Adoption of GASB 101 (Note 2)				(1,810,064)
Net Position (Deficit) - Beginning of year, as restated				(7,106,362)
Net Position - End of year				\$ 6,596,288

Sturgis Public School District

Governmental Funds Balance Sheet

June 30, 2025

	General Fund	Public Improvement Fund	Nonmajor Funds	Total Governmental Funds
Assets				
Cash and investments (Note 4)	\$ 10,136,662	\$ 1,551,921	\$ 1,310,257	\$ 12,998,840
Receivables - Due from other governments	7,515,554	-	73,258	7,588,812
Due from other funds (Note 7)	-	1,780,800	-	1,780,800
Inventories	21,090	-	27,323	48,413
Prepaid costs	50,105	-	100,000	150,105
Restricted assets (Note 4)	-	-	1,794,862	1,794,862
Total assets	\$ 17,723,411	\$ 3,332,721	\$ 3,305,700	\$ 24,361,832
Liabilities				
Accounts payable	\$ 315,769	\$ 7,760	\$ 55,373	\$ 378,902
Due to other funds (Note 7)	1,660,800	-	120,000	1,780,800
Accrued payroll and other liabilities	3,079,696	-	20,638	3,100,334
Unearned revenue (Note 5)	877,314	-	-	877,314
Total liabilities	5,933,579	7,760	196,011	6,137,350
Fund Balances				
Nonspendable:				
Inventories	21,090	-	27,323	48,413
Prepaid costs	50,105	-	100,000	150,105
Restricted:				
Debt service	-	-	199,039	199,039
Capital projects	-	-	1,620,654	1,620,654
Food service	-	-	609,470	609,470
Committed - Student activity	-	-	550,080	550,080
Assigned:				
Budgeted use of fund balance in subsequent year	382,558	-	-	382,558
Capital improvements	-	3,324,961	12,177	3,337,138
Unassigned	11,336,079	-	(9,054)	11,327,025
Total fund balances	11,789,832	3,324,961	3,109,689	18,224,482
Total liabilities and fund balances	\$ 17,723,411	\$ 3,332,721	\$ 3,305,700	\$ 24,361,832

Sturgis Public School District

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

June 30, 2025

Fund Balances Reported in Governmental Funds	\$ 18,224,482
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets are not financial resources and are not reported in the funds:	
Cost of capital assets	93,986,780
Accumulated depreciation	<u>(41,868,300)</u>
Net capital assets used in governmental activities	52,118,480
Deferred inflows and outflows related to bond refundings are not reported in the funds	(1,185,668)
Bonds payable, bond issuance premiums, School Loan Revolving Fund, and accreted interest on School Loan Revolving Fund are not due and payable in the current period and are not reported in the funds	(16,978,045)
Accrued interest is not due and payable in the current period and is not reported in the funds	(88,840)
Some employee fringe benefits provide benefit (or are payable) over a long period of years and do not represent a benefit to (or a claim on) current financial resources; therefore, they are not reported as fund assets (liabilities):	
Employee compensated absences	(2,250,630)
Net pension liability and related deferred inflows and outflows	(40,386,217)
Net OPEB asset and related deferred inflows and outflows	(688,531)
Revenue in support of pension contributions made subsequent to the measurement date is reported as a deferred inflow of resources in the statement of net position and is not reported in the funds	<u>(2,168,743)</u>
Net Position of Governmental Activities	<u><u>\$ 6,596,288</u></u>

Sturgis Public School District

Governmental Funds

Statement of Revenue, Expenditures, and Changes in Fund Balances

Year Ended June 30, 2025

	General Fund	Public Improvement Fund	Nonmajor Funds	Total Governmental Funds
Revenue				
Local sources	\$ 4,468,625	\$ 79,382	\$ 5,491,742	\$ 10,039,749
State sources	34,111,185	-	345,607	34,456,792
Federal sources	1,393,731	-	2,193,231	3,586,962
Interdistrict sources	1,673,325	-	-	1,673,325
Total revenue	41,646,866	79,382	8,030,580	49,756,828
Expenditures				
Current:				
Instruction	24,194,536	-	-	24,194,536
Support services	12,987,747	-	527,781	13,515,528
Athletics	857,025	-	-	857,025
Food services	-	-	2,762,241	2,762,241
Community services	275,784	-	77,026	352,810
Debt service:				
Principal	-	-	3,263,850	3,263,850
Interest	-	-	587,886	587,886
Other debt costs	-	-	131,912	131,912
Capital outlay	274,339	2,457,583	196,720	2,928,642
Total expenditures	38,589,431	2,457,583	7,547,416	48,594,430
Excess of Revenue Over (Under) Expenditures	3,057,435	(2,378,201)	483,164	1,162,398
Other Financing Sources (Uses)				
Premium on debt issued (Note 8)	-	-	463,412	463,412
Face value of debt issued (Note 8)	-	-	8,125,000	8,125,000
Transfers in (Note 7)	45,045	1,780,800	153,260	1,979,105
Payment to bond refunding escrow agent (Note 8)	-	-	(8,458,613)	(8,458,613)
Transfers out (Note 7)	(1,814,060)	-	(165,045)	(1,979,105)
Total other financing (uses) sources	(1,769,015)	1,780,800	118,014	129,799
Net Change in Fund Balances	1,288,420	(597,401)	601,178	1,292,197
Fund Balances - Beginning of year	10,501,412	3,922,362	2,508,511	16,932,285
Fund Balances - End of year	\$ 11,789,832	\$ 3,324,961	\$ 3,109,689	\$ 18,224,482

Sturgis Public School District

Governmental Funds

**Reconciliation of the Statement of Revenue, Expenditures, and Changes in
Fund Balances to the Statement of Activities**

Year Ended June 30, 2025

Net Change in Fund Balances Reported in Governmental Funds	\$ 1,292,197
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, these costs are allocated over their estimated useful lives as depreciation:	
Capitalized capital outlay	2,818,000
Depreciation expense	(2,185,564)
Revenue in support of pension contributions made subsequent to the measurement date	1,001,703
Issuing debt, net of premiums, provide current financial resources to governmental funds but increase long-term liabilities in the statement of net position.	(8,588,412)
Repayment of bond principal, School Loan Revolving Fund, and accreted interest on School Loan Revolving Fund is an expenditure in the governmental funds but not in the statement of activities (where it reduces long-term debt); amortization of premium/discounts and inflows/outflows related to bond refundings are not expenses in the governmental funds	11,950,961
Interest expense is recognized in the government-wide statements as it accrues	21,017
Some employee costs (pension, OPEB, and compensated absences) do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds	7,392,748
Change in Net Position of Governmental Activities	<u>\$ 13,702,650</u>

June 30, 2025

Note 1 - Nature of Business

Sturgis Public School District (the "School District") is a school district in the state of Michigan that provides educational services to students.

Note 2 - Significant Accounting Policies

Accounting and Reporting Principles

The School District follows accounting principles generally accepted in the United States of America (GAAP), as applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Governmental Accounting Standards Board. The following is a summary of the significant accounting policies used by the School District:

Reporting Entity

The School District is governed by an elected seven-member Board of Education. In accordance with government accounting principles, there are no separate legal entities appropriate to be reported within these financial statements.

Report Presentation

Governmental accounting principles require that financial reports include two different perspectives - the government-wide perspective and the fund-based perspective. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units, as applicable. The government-wide financial statements are presented on the economic resources measurement focus and the full accrual basis of accounting. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The statements also present a schedule reconciling these amounts to the modified accrual-based presentation found in the fund-based statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Taxes, unrestricted intergovernmental receipts, and other items not properly included among program revenue are reported instead as general revenue.

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

Major individual governmental funds are reported as separate columns in the fund financial statements.

Basis of Accounting

The governmental funds use the current financial resources measurement focus and the modified accrual basis of accounting. This basis of accounting is intended to better demonstrate accountability for how the School District has spent its resources.

Expenditures are reported when the goods are received or the services are rendered. Capital outlays are reported as expenditures (rather than as capital assets) because they reduce the ability to spend resources in the future; conversely, employee benefit costs that will be funded in the future (such as pension and retiree health care-related costs or sick and vacation pay) are not counted until they come due for payment. In addition, debt service expenditures, claims, and judgments are recorded only when payment is due.

Note 2 - Significant Accounting Policies (Continued)

Revenue is not recognized until it is collected or collected soon enough after the end of the year that it is available to pay for obligations outstanding at the end of the year. For this purpose, the School District considers amounts collected within 60 days of year end to be available for recognition. Revenue not meeting this definition is classified as a deferred inflow of resources.

Fund Accounting

The School District accounts for its various activities in several different funds in order to demonstrate accountability for how it spends certain resources; separate funds allow the School District to show the particular expenditures for which specific revenue is used. The various funds are aggregated into the following broad fund type:

Governmental Funds

Governmental funds include all activities that provide general governmental services that are not business-type activities. Governmental funds can include the General Fund, special revenue funds, debt service funds, and capital projects funds. The School District reports the following funds as major governmental funds:

- The General Fund is the primary operating fund because it accounts for all financial resources used to provide government services other than those specifically assigned to another fund.
- The School District's Public Improvement Fund is specifically designated for acquiring new school sites, buildings, and equipment; technology upgrades; and remodeling and repairs. The fund operates until the purpose for which it was created is accomplished.

Additionally, the School District reports the following nonmajor governmental fund types:

- Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes. The School District's special revenue funds are the Food Service Fund, Community Services Fund, and Student Activity Fund. Revenue sources for the Food Service Fund include sales to customers and dedicated grants from federal sources. Revenue sources for the Community Services Fund include rental of the School District's assets. Revenue sources for the Student Activity Fund include fundraising revenue and donations earned and received by student groups. Any operating deficit generated by these activities is the responsibility of the General Fund.
- Capital project funds are used to record bond proceeds or other revenue and the disbursement of invoices. The Building and Site Sinking Fund is specifically designated for acquiring new school sites, buildings, and equipment; technology upgrades; and remodeling. The Energy Conservation Improvement Fund is specifically designated for energy conservation projects throughout the School District. The Athletics (Public Improvements) is specifically designated for athletic department improvements. The funds operate until the purpose for which they were created is accomplished.
- Debt service funds are used to record tax, interest, and other revenue for payment of interest, principal, and other expenditures on long-term debt.

Interfund Activity

During the course of operations, the School District has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Note 2 - Significant Accounting Policies (Continued)

Furthermore, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

Specific Balances and Transactions

Cash and Investments

Cash and investments include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value except for certain investments in external investment pools, which are valued at amortized cost.

Inventories and Prepaid Items

Inventories are valued at cost on a first-in, first-out basis. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements, when applicable.

Restricted Assets

The following amounts are reported as restricted assets:

- Unspent energy bond proceeds and related interest of the bonded capital projects funds required to be set aside for construction or other allowable bond purchases
- Unspent property taxes levied and held in the debt service funds required to be set aside for future bond principal and interest payments
- Unspent property taxes levied and held in the sinking fund required to be set aside for construction or allowable purchases

Capital Assets

Capital assets, which include land, buildings and improvements, furniture and equipment, and buses and other vehicles, are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the School District as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

	<u>Depreciable Life - Years</u>
Buildings and improvements	20 to 50
Furniture and equipment	5 to 20
Vehicles	5 to 20

Note 2 - Significant Accounting Policies (Continued)

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bond using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed at the time they are incurred. In the fund financial statements, governmental fund types recognize bond issuances and premiums as other financing sources and bond discounts as other financing uses. The General Fund and debt service funds are generally used to liquidate governmental long-term debt.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense/expenditure) until then.

The School District reports deferred outflows related to deferred pension and OPEB costs.

In addition to liabilities, the statement of net position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time.

The School District reports deferred inflows related to deferred benefit on bond refunding, revenue in support of pension contributions made subsequent to the measurement date and deferred pension and OPEB costs.

Net Position

Net position of the School District is classified in three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and is reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. The restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Unrestricted net position is the remaining net position that does not meet the definition of invested in capital or restricted.

Net Position Flow Assumption

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

Fund Balance Flow Assumptions

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

Note 2 - Significant Accounting Policies (Continued)

Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The nonspendable fund balance component represents amounts that are not in spendable form or are legally or contractually required to be maintained intact. Restricted fund balance represents amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose. The School District itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

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

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

Property Tax Revenue

Properties are assessed as of December 31, and the related property taxes become a lien on July 1 of the following year. Tax collections are forwarded to the School District as collected by the assessing municipalities through March 1, at which time they are considered delinquent and added to county tax rolls. Any delinquent taxes collected by the county are remitted to the School District by June 30. The School District considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded.

Grants and Contributions

The School District receives federal, state, and local grants, as well as contributions from individuals and private organizations. Revenue from grants and contributions (including contributions of capital assets) is recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenue. Amounts restricted to capital acquisitions are reported after nonoperating revenue and expenses.

Pension and Other Postemployment Benefit (OPEB) Plans

For the purpose of measuring the net pension and net OPEB liabilities (assets), deferred outflows of resources and deferred inflows of resources related to each plan, and pension and OPEB expense, information about the fiduciary net position of the Michigan Public School Employees' Retirement System (MPERS) and additions to/deductions from the MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. MPERS uses the economic resources measurement focus and the full accrual basis of accounting. Contribution revenue is recorded as contributions are due, pursuant to legal requirements. Benefit payments (including refunds of employee contributions) are recognized as expenses when due and payable in accordance with the plan benefit terms. Related plan investments are reported at fair value.

Note 2 - Significant Accounting Policies (Continued)

Compensated Absences (Vacation and Sick Leave)

In accordance with GASB Statement No. 101, *Compensated Absences*, the School District has accrued a liability for future absences, recognizing the obligation relating to compensation for absences attributable to services already rendered. Teachers and other employees receive compensation for vacations, holidays, illnesses, and certain other qualifying absences. It is the policy of the School District to accumulate earned but unused annual leave benefits, which will be paid to employees upon separation from the School District. A leave liability is recognized due to the leave attributable to services already renders, leave that accumulates, and leave that is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means.

Use of Estimates

The preparation of 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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Accounting Changes

Adoption of New Accounting Pronouncement

During the current year, the School District adopted GASB Statement No. 101, *Compensated Absences*, which updated the recognition and measurement for compensated absences under a unified model. As a result, the School District is required to restate liabilities for compensated absences to be recognized for leave that has not been used and leave that has been used but not yet paid in cash or settled through noncash means. The financial statements for the year ended June 30, 2024 have been restated in order to adopt GASB Statement No. 101. The effects of this adoption of a new accounting pronouncement are shown in the table at the end of this section.

Adjustments to and Restatements of Beginning Balances

During fiscal year 2024, the changes noted above resulted in adjustments to and restatements of beginning net position as follows:

	<u>June 30, 2024</u>	Adoption of New Accounting Pronouncement	<u>June 30, 2024</u>
	As Previously Reported		As Restated
Government-wide - Governmental activities	\$ (5,296,298)	\$ (1,810,064)	\$ (7,106,362)

Upcoming Accounting Pronouncements

In April 2024, the Governmental Accounting Standards Board issued Statement No. 103, *Financial Reporting Model Improvements*, which establishes new accounting and financial reporting requirements or modifies existing requirements related to the following: management's discussion and analysis; unusual or infrequent items; presentation of the proprietary fund statement of revenue, expenses, and changes in fund net position; information about major component units in basic financial statements; budgetary comparison information; and financial trends information in the statistical section. The provisions of this statement are effective for the School District's financial statements for the year ending June 30, 2026.

Note 2 - Significant Accounting Policies (Continued)

In September 2024, the Governmental Accounting Standards Board issued Statement No. 104, *Disclosure of Certain Capital Assets*, which requires certain types of capital assets, such as lease assets, intangible right-of-use assets, subscription assets, and other intangible assets, to be disclosed separately by major class of underlying asset in the capital assets note. This statement also requires additional disclosures for capital assets held for sale. The provisions of this statement are effective for the School District's financial statements for the year ending June 30, 2026.

Note 3 - Stewardship, Compliance, and Accountability

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the General Fund and all special revenue funds, except the capital outlay is budgeted by function. All annual appropriations lapse at fiscal year end. The budget document presents information by fund and function (or fund, function, and object). The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function (or object) level. State law requires the School District to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. During the year, the budget was amended in a legally permissible manner. The School District adjusted budget amounts during the year in response to changes in student counts, property tax values, and other economic conditions.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders or contracts) are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Deficit in Fund Balance

The School District had a deficit in fund balance in the Community Services special revenue fund of \$9,054. These deficits will be eliminated through transfers from the General Fund.

Excess of Expenditures Over Appropriations in Budgeted Funds

During the year, the School District incurred expenditures in the General Fund that were in excess of the amounts budgeted as follows:

	Budget	Actual
Transfers out - Other financing uses	\$ 1,154,000	\$ 1,814,060
Operations and maintenance	3,460,199	3,717,591

Fund Deficits and Management's Plan

The School District had a fund balance deficit in the Community Services Fund of \$9,054 at June 30, 2025. The School District plans on increasing local revenue during the 2026 school year to eliminate the fund deficit.

Sinking Fund Compliance

The Building and Site Sinking Fund includes capital project activities funded with Sinking Fund millage. For this fund, authorized prior to March 29, 2017, the School District has complied with the applicable provisions of §1212 of the State of Michigan Revised School Code.

Note 4 - Deposits and Investments

State statutes and the School District's investment policy authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The School District is allowed to invest in U.S. Treasury or agency obligations, U.S. government repurchase agreements, bankers' acceptances, certificates of deposit, commercial paper rated prime at the time of purchase that matures no more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The School District's deposits are in accordance with statutory authority.

The School District has designated one bank and one financial institution for the deposit of its funds.

There are no limitations or restrictions on participant withdrawals for the investment pools that are recorded at amortized cost except for a 14-day redemption limitation on MILAF MAX Class funds. Redemptions made prior to the applicable 14-day period are subject to penalty equal to 15 days' interest on the amount redeemed.

The investment policy adopted by the board in accordance with state statute has authorized investment in bonds and securities of the United States government and bank accounts and CDs but not the remainder of state statutory authority, as listed above.

The School District's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the School District's deposits may not be returned to it. The School District's investment policy requires that financial institutions be evaluated and only those with an acceptable risk level be used for the School District's deposits. At year end, the School District's deposit balance had bank deposits totaling \$1,175,244 (certificates of deposit and checking and savings accounts) that were uninsured and uncollateralized. The School District believes that, due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits.

Custodial Credit Risk of Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District's policy for custodial credit risk states custodial credit risk will be minimized by limiting investments to the types of securities allowed by the state law and by limiting the financial institutions, broker/dealers, intermediaries, and advisors with which the School District will do business using the criteria established in the investment policy. At June 30, 2025, the School District does not have investments with custodial credit risk.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The School District's investment policy does not restrict investment maturities other than commercial paper, which can only be purchased with a 270-day maturity. The School District's policy minimizes interest rate risk by requiring the board to apply the following methods to assess and control such risks: segmented timed distribution, specific identification, weighted-average maturity, duration, and simulation model. The School District's policy does not address more specific ways to minimize interest rate risk.

Note 4 - Deposits and Investments (Continued)

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The School District has no investment policy that would further limit its investment choices. As of June 30, 2025, the credit quality ratings of securities (other than the U.S. government) are as follows:

	<u>Fair Value</u>	<u>Ratings</u>	<u>Rating Organization</u>
Michigan Liquid Asset Fund - MAX Class	\$ 13,642,051	AAAm	S&P

Concentration of Credit Risk

The School District places no limit on the amount the School District may invest in any one issuer. The School District does not have a policy to minimize concentration of credit risk.

Foreign Currency Risk

Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. State law and the School District's investment policy prohibit investments in foreign currency.

Note 5 - Unavailable/Unearned Revenue

Governmental funds report unavailable revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also report unearned revenue recognition in connection with resources that have been received but not yet earned.

At June 30, 2025, the School District had no unavailable revenue and \$877,314 of unearned revenue, primarily related to grant and categorical aid payments received prior to meeting all eligibility requirements.

June 30, 2025

Note 6 - Capital Assets

Capital asset activity of the School District's governmental activities was as follows:

Governmental Activities

	Balance July 1, 2024	Additions	Disposals and Adjustments	Balance June 30, 2025
Capital assets not being depreciated - Land	\$ 421,450	\$ -	\$ -	\$ 421,450
Capital assets being depreciated:				
Buildings and improvements	84,157,825	1,153,229	-	85,311,054
Furniture and equipment	4,555,518	1,419,361	-	5,974,879
Buses and other vehicles	2,033,987	245,410	-	2,279,397
Subtotal	90,747,330	2,818,000	-	93,565,330
Accumulated depreciation:				
Buildings and improvements	36,984,956	1,848,652	-	38,833,608
Furniture and equipment	1,727,949	169,259	-	1,897,208
Buses and other vehicles	969,831	167,653	-	1,137,484
Subtotal	39,682,736	2,185,564	-	41,868,300
Net capital assets being depreciated	51,064,594	632,436	-	51,697,030
Net governmental activities capital assets	<u>\$ 51,486,044</u>	<u>\$ 632,436</u>	<u>\$ -</u>	<u>\$ 52,118,480</u>

Depreciation expense was not charged to activities, as the School District's assets benefit multiple activities, and allocation is impractical.

Note 7 - Interfund Receivables, Payables, and Transfers

Interfund transfers reported in the fund financial statements are composed of the following:

- The General Fund transferred \$18,260 to the Food Service Fund and \$135,000 to the Energy Conservation Improvement Fund during the year ended June 30, 2025 to help provide funding.
- The Food Service Fund transferred \$45,045 to reimburse the General Fund for indirect costs related to the food service activities.
- The Athletic (Public Improvements) Fund has \$120,000 due to the Public Improvement Fund as of June 30, 2025 and transferred \$120,000 to the Public Improvement Fund as of June 30, 2025 to help provide additional funding for anticipated future capital projects.
- The General Fund has \$1,660,800 due to the Public Improvement Fund as of June 30, 2025 and transferred \$1,660,800 to the Public Improvement Fund as of June 30, 2025 to help provide additional funding for anticipated future capital projects.

Note 8 - Long-term Debt

Long-term debt activity for the year ended June 30, 2025 can be summarized as follows:

	Beginning Balance (Restated)	Additions	Reductions	Ending Balance	Due within One Year
Bonds payable:					
Direct borrowings and direct placements - School loan revolving fund	\$ 2,010,122	\$ -	\$ (228,850)	\$ 1,781,272	\$ -
Other debt:					
General obligations	17,890,000	8,125,000	(11,365,000)	14,650,000	3,390,000
Accreted interest on school loan revolving fund	50,289	92,095	(46,150)	96,234	-
Total other debt principal outstanding	17,940,289	8,217,095	(11,411,150)	14,746,234	3,390,000
Unamortized bond premiums	1,869,221	463,412	(1,882,094)	450,539	77,235
Total bonds payable	21,819,632	8,680,507	(13,522,094)	16,978,045	3,467,235
Compensated absences (Note 2)	1,851,283	399,347	-	2,250,630	1,800,630
Total governmental activities long-term debt	<u>\$ 23,670,915</u>	<u>\$ 9,079,854</u>	<u>\$ (13,522,094)</u>	<u>\$ 19,228,675</u>	<u>\$ 5,267,865</u>

The table above discloses the net change in the compensated absence liability of the School District.

General Obligation Bonds and Contracts

The School District issues general obligation bonds to provide for the acquisition and construction of major capital facilities. General obligations have been issued for governmental activities. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. The School District's qualified bonds are fully guaranteed by the State of Michigan. The primary source of any required repayment is from the School District's property tax levy; however, the State of Michigan may withhold the School District's state aid funding in order to recover amounts it has paid on behalf of the School District. General obligations outstanding at June 30, 2025 are as follows:

Purpose	Remaining Annual Installments	Interest Rates (Percent)	Maturing	Outstanding
\$5,780,000 - 2019 Qualified Refunding Bonds	\$1,155,000 - \$1,395,000	2.05 - 2.34	May 2028	\$ 3,830,000
\$1,200,000 - 2019 Qualified Energy Conservation Improvement Bonds	\$120,000 - \$130,000	1.60 - 2.02	May 2030	635,000
\$2,355,000 - 2021 Qualified Refunding Bonds	\$235,000 - \$870,000	1.00 - 1.75	May 2029	2,060,000
\$8,125,000 - 2025 Qualified Refunding Bonds	\$375,000- \$2,380,000	5.0	May 2030	8,125,000
Total governmental activities				<u>\$ 14,650,000</u>

Note 8 - Long-term Debt (Continued)

Debt Service Requirements to Maturity

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

Years Ending June 30	Governmental Activities		
	Principal	Interest	Total
2026	\$ 3,390,000	\$ 538,518	\$ 3,928,518
2027	3,560,000	413,861	3,973,861
2028	2,565,000	285,100	2,850,100
2029	2,625,000	220,636	2,845,636
2030	2,510,000	121,626	2,631,626
Total	<u>\$ 14,650,000</u>	<u>\$ 1,579,741</u>	<u>\$ 16,229,741</u>

School Loan Revolving Fund

The School Loan Revolving Fund payable represents a direct borrowing from the State of Michigan for loans made to the School District, as authorized by the 1963 State of Michigan Constitution, for the purpose of paying principal and interest on general obligation bonds of the School District issued for capital expenditures. Interest rates are to be annually determined by the State Administrative Board in accordance with Section 9 of Act No. 92 of the Public Acts of 2005 (the "Act"), as amended. The School Loan Revolving Fund is accessible to school districts for borrowings that initiated after July 19, 2005. Interest during the year ended June 30, 2025 was 4.22 to 4.629 percent. Repayment begins as soon as annual tax collections exceed annual debt service payment requirements. The predetermined mandatory final loan repayment date is May 1, 2036. If the School District fails to levy the appropriate debt mills in accordance with the agreement or defaults in loan repayment, the School District shall increase its debt levy in the next succeeding year, and a default late charge of 3 percent will apply. Due to the variability of the factors that affect the timing of repayment, including the future amount of state-equalized value of property in the School District, no provision for repayment has been included in the above debt maturity schedule. If the School District is in default of the loan agreement, the State of Michigan may withhold state aid funding until repayment terms satisfactory to the State of Michigan have been made.

In the prior years, the School District defeased certain bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account's assets and liabilities for the defeased bonds are not included in the basic financial statements. As of June 30, 2025, there are no remaining bonds outstanding to be defeased.

Current Bond Refunding

During the year, the School District issued \$8,125,000 in general obligation bonds with an interest rate of 5.00 percent along with a premium on issuance of \$463,412. The net proceeds of these bonds (after payment of \$129,799 in underwriting fees, insurance, and other issuance costs) were used to immediately refund \$8,330,000 of outstanding 2015A bonds with an interest rate of 5.00 percent. As a result, the liability for the bonds has been removed from long-term debt. The refunding reduced total debt service payments over the next five years by approximately \$570,000, which represents an economic gain of approximately \$320,000.

Note 9 - Risk Management

The School 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 School District has purchased commercial insurance for medical claims and participates in the SET-SEG shared-risk pool for insurance for property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as some medical benefits provided to some employees. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

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

Note 10 - Michigan Public School Employees' Retirement System

Plan Description

The School District participates in the Michigan Public School Employees' Retirement System (the "System"), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. Certain school district employees also receive defined contribution retirement and health care benefits through the System. The System provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The System also provides postemployment health care benefits to retirees and beneficiaries who elect to receive those benefits.

The System is administered by the Office of Retirement Services (ORS). The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the pension and postemployment health care plans. That report is available on the web at <http://www.michigan.gov/orsschools>.

Benefits Provided

Benefit provisions of the defined benefit (DB) pension plan and the postemployment health care 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 pension plan and the postemployment health care plan.

Depending on the plan option selected, member retirement benefits are calculated as final average compensation times years of services times a pension factor ranging from 1.25 percent to 1.50 percent. The requirements to retire range from attaining the age of 46 to 60 with years of service ranging from 5 to 30 years, depending on when the employee became a member. Early retirement is computed in the same manner as a regular pension but is permanently reduced by 0.50 percent for each full and partial month between the pension effective date and the date the member will attain age 60. There is no mandatory retirement age.

Depending on the member's date of hire, MPSERS offers the option of participating in the defined contribution (DC) plan that provides a 50 percent employer match (up to 3 percent of salary) on employee contributions.

Members are eligible for nonduty disability benefits after 10 years of service and for duty-related disability benefits upon hire. Disability retirement benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. The disability benefits plus authorized outside earnings are limited to 100 percent of the participant's final average compensation, with an increase of 2 percent each year thereafter.

Benefits may transfer to a beneficiary upon death and are determined in the same manner as retirement benefits but with an actuarial reduction.

Note 10 - Michigan Public School Employees' Retirement System (Continued)

Benefit terms provide for annual cost of living adjustments to each employee's retirement allowance subsequent to the employee's retirement date. The annual adjustment, if applicable, is 3 percent. Some members who do not receive an annual increase are eligible to receive a supplementary payment in those years when investment earnings exceed actuarial assumptions.

MPSERS provides medical, prescription drug, dental, and vision coverage for retirees and beneficiaries. A subsidized portion of the premium is paid by MPSERS, with the balance deducted from the monthly pension of each retiree health care recipient. Depending on the member's date of hire, this subsidized portion ranges from 80 percent to the maximum allowed by the statute.

Contributions

Public Act 300 of 1980, as amended, required the School District to contribute amounts necessary to finance the coverage of pension benefits of active and retired members. Contribution provisions are specified by state statute and may be amended only by action of the state Legislature. Under these provisions, each school district's contribution is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance a portion of the unfunded accrued liability.

Under the OPEB plan, retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent, or 20 percent for those not Medicare eligible, of the monthly premium amount for the health, dental, and vision coverage at the time of receiving the benefits. The MPSERS board of trustees annually sets the employer contribution rate to fund the benefits. Participating employers are required to contribute at that rate.

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

The School District's contributions are determined based on employee elections. There are multiple different pension and health care benefit options included in the plan available to employees based on date of hire and the elections available at that time. Contribution rates are adjusted annually by the ORS.

The ranges of rates are as follows:

	Pension	OPEB
October 1, 2023 - September 30, 2024	13.90% - 23.03%	7.06% - 8.31%
October 1, 2024 - September 30, 2025	20.96% - 30.11%	0.00% - 1.25%

Depending on the plan selected, member pension contributions range from 0 percent up to 7.0 percent of gross wages. For certain plan members, a 4 percent employer contribution to the defined contribution pension plan is required. In addition, for certain plan members, a 3 percent employer match is provided to the defined contribution pension plan.

June 30, 2025

Note 10 - Michigan Public School Employees' Retirement System (Continued)

The School District's required and actual pension contributions to the plan for the year ended June 30, 2025 were \$7,243,135, which includes the School District's contributions required for those members with a defined contribution benefit. For the year ended June 30, 2025, the School District's required and actual pensions contributions include an allocation of \$2,168,743 in revenue received from the State of Michigan and remitted to the System to fund the MPSERS unfunded actuarial accrued liability (UAAL) stabilization rate as well as \$401,664 of a one-time state payment received and remitted to the System for the purpose of contributing additional assets to the System.

The School District's required and actual OPEB contributions to the plan for the year ended June 30, 2025 were \$673,108, which includes the School District's contributions required for those members with a defined contribution benefit.

Net Pension Liability

At June 30, 2025, the School District reported a liability of \$39,309,222 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2024, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2023, which used update procedures to roll forward the estimated liability to September 30, 2024. The School District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2024 and 2023, the School District's proportion was 0.161 and 0.159 percent, respectively, representing a change of 1.29 percent.

Net OPEB Asset

At June 30, 2025, the School District reported an asset of \$6,866,902 for its proportionate share of the net OPEB asset. The net OPEB asset for fiscal year 2025 was measured as of September 30, 2024, and the total OPEB liability used to calculate the net OPEB asset was determined by an actuarial valuation as of September 30, 2023, which used update procedures to roll forward the estimated liability to September 30, 2024. The School District's proportion of the net OPEB asset was based on a projection of its long-term share of contributions to the OPEB plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2024 and 2023, the School District's proportion was 0.15953 and 0.15927 percent, respectively, representing a change of 0.16 percent.

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

For 2025, the School District recognized pension expense of \$2,043,565, inclusive of payments to fund the MPSERS UAAL stabilization rate. At June 30, 2025, the School 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	\$ 1,066,487	\$ (427,100)
Changes in assumptions	4,098,219	(2,880,123)
Net difference between projected and actual earnings on pension plan investments	-	(7,501,866)
Changes in proportion and differences between the School District's contributions and proportionate share of contributions	481,119	(1,937,168)
The School District's contributions to the plan subsequent to the measurement date	6,023,437	-
Total	<u>\$ 11,669,262</u>	<u>\$ (12,746,257)</u>

June 30, 2025

Note 10 - Michigan Public School Employees' Retirement System (Continued)

The \$6,023,437 reported as deferred inflows of resources resulting from the pension portion of state aid payments received pursuant to the UAAL payment will be recognized as state appropriations revenue for the year ending June 30, 2026. Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending	Amount
2026	\$ (2,121,842)
2027	(251,045)
2028	(2,837,250)
2029	(1,890,295)
Total	<u>\$ (7,100,432)</u>

In addition, the contributions subsequent to the measurement date will be included as a reduction of the net pension liability in the next year.

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

For the year ended June 30, 2025, the School District recognized OPEB recovery of \$2,745,657.

At June 30, 2025, the School 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	\$ -	\$ (7,276,820)
Changes in assumptions	1,499,830	(172,393)
Net difference between projected and actual earnings on OPEB plan investments	-	(1,299,983)
Changes in proportionate share or difference between amount contributed and proportionate share of contributions	128,985	(591,705)
Employer contributions to the plan subsequent to the measurement date	156,653	-
Total	<u>\$ 1,785,468</u>	<u>\$ (9,340,901)</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows (note that employer contributions subsequent to the measurement date will reduce (increase) the net OPEB liability (asset) and, therefore, will not be included in future OPEB expense):

Years Ending	Amount
2026	\$ (2,567,387)
2027	(1,564,220)
2028	(1,511,495)
2029	(1,268,340)
2030	(672,347)
Thereafter	(128,297)
Total	<u>\$ (7,712,086)</u>

Note 10 - Michigan Public School Employees' Retirement System (Continued)

Actuarial Assumptions

The total pension liability and total OPEB liability as of September 30, 2024 are based on the results of an actuarial valuation as of September 30, 2023 and rolled forward. The total pension liability and OPEB liability were determined using the following actuarial assumptions:

Actuarial cost method		Entry age normal
Investment rate of return - Pension	6.00%	Net of investment expenses based on the groups
Investment rate of return - OPEB	6.00%	Net of investment expenses based on the groups
Salary increases	2.75% - 11.55%	Including wage inflation of 2.75%
Health care cost trend rate - OPEB	6.50% - 7.25%	Year 1 graded to 3.5 in year 15
Mortality basis		RP20PubT-2010 Male and Female Employee
		Mortality tables, scaled 100% (retirees: 116 percent for males and 116 percent for females) and adjusted for mortality improvements using projection scale MP-2021 from 2010.
Cost of living pension adjustments	3.00%	Annual noncompounded for MIP members

Assumption changes as a result of an experience study for the periods from 2017 to 2022 have been adopted by the System for use in the annual pension and OPEB valuations beginning with the September 30, 2023 valuation. The total pension liability and OPEB liability as of September 30, 2024, is based on the results of an actuarial valuation date of September 30, 2023, and rolled forward using generally accepted actuarial procedures, including the experience study.

Significant assumption changes since the prior measurement date, September 30, 2023, for the OPEB plan include a decrease in the health care cost trend rate of 0.25 percent for members under 65 and an increase of 0.25 percent for members over 65. There were no significant benefit term changes for the pension or OPEB plans since the prior measurement date of September 30, 2023.

Discount Rate

The discount rate used to measure the total pension and OPEB liability was 6.00 percent as of September 30, 2024. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that district contributions will be made at statutorily required rates.

Based on those assumptions, the pension plan's fiduciary net position and the OPEB plan's fiduciary net position were projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan and OPEB plan investments was applied to all periods of projected benefit payments to determine the total pension liability and total OPEB liability.

June 30, 2025

Note 10 - Michigan Public School Employees' Retirement System (Continued)

The long-term expected rate of return on pension plan and 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 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. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity pools	25.00 %	5.30 %
Private equity pools	16.00	9.00
International equity pools	15.00	6.50
Fixed-income pools	13.00	2.20
Real estate and infrastructure pools	10.00	7.10
Absolute return pools	9.00	5.20
Short-term investment pools	10.00	6.90
Real return/opportunistic pools	2.00	1.40
Total	100.00 %	

Long-term rates of return are net of administrative expense and inflation of 2.3 percent.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the School District, calculated using the discount rate depending on the plan option. The following also reflects what the School District's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percentage Point Decrease (5.00%)	Current Discount Rate (6.00%)	1 Percentage Point Increase (7.00%)
Net pension liability of the School District	\$ 57,627,742	\$ 39,309,222	\$ 24,055,530

Sensitivity of the Net OPEB Asset to Changes in the Discount Rate

The following presents the net OPEB asset of the School District, calculated using the current discount rate. It also reflects what the School District's net OPEB asset would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percentage Point Decrease (5.00%)	Current Discount Rate (6.00%)	1 Percentage Point Increase (7.00%)
Net OPEB asset of the School District	\$ (5,306,799)	\$ (6,866,902)	\$ (8,215,777)

June 30, 2025

Note 10 - Michigan Public School Employees' Retirement System (Continued)

Sensitivity of the Net OPEB Asset to Changes in the Health Care Cost Trend Rate

The following presents the net OPEB asset of the School District, calculated using the current health care cost trend rate. It also reflects what the School District's net OPEB asset would be if it were calculated using a health care cost trend rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	<u>1 Percentage Point Decrease</u>	<u>Current Rate</u>	<u>1 Percentage Point Increase</u>
Net OPEB asset of the School District	\$ (8,215,792)	\$ (6,866,902)	\$ (5,420,226)

Pension Plan and OPEB Plan Fiduciary Net Position

Detailed information about the plan's fiduciary net position is available in the separately issued MPSERS financial report.

Payable to the Pension Plan and OPEB Plan

At June 30, 2025, the School District reported a payable of \$921,692 and \$21,425 for the outstanding amount of contributions to the pension plan and OPEB plan, respectively, required for the year ended June 30, 2025.

Note 11 - Tax Abatements

The School District receives reduced property tax revenue as a result of industrial facilities tax exemptions (PA 198 of 1974) and brownfield redevelopment agreements granted by cities, villages, and townships within the boundaries of the School District. Industrial facility exemptions are intended to promote construction of new industrial facilities or to rehabilitate historical facilities; brownfield redevelopment agreements are intended to reimburse taxpayers that remediate environmental contamination on their properties.

For the fiscal year ended June 30, 2025, the School District's property tax revenue was reduced by approximately \$992,549 under these programs.

The School District is reimbursed for lost revenue caused by tax abatements on the operating millage of nonhomestead properties from the State of Michigan under the School Aid formula. The School District received approximately \$664,649 in reimbursements from the State of Michigan. The School District is not reimbursed for lost revenue from the debt service millages.

Required Supplementary Information

Sturgis Public School District

Required Supplementary Information
Budgetary Comparison Schedule
General Fund

Year Ended June 30, 2025

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue				
Local sources	\$ 4,171,000	\$ 4,332,770	\$ 4,468,625	\$ 135,855
State sources	34,643,809	33,802,183	34,111,185	309,002
Federal sources	855,452	1,351,957	1,393,731	41,774
Interdistrict sources	1,211,386	1,515,128	1,673,325	158,197
Total revenue	40,881,647	41,002,038	41,646,866	644,828
Expenditures				
Current:				
Instruction:				
Basic programs	19,635,825	18,949,215	17,547,664	(1,401,551)
Added needs	6,300,942	6,628,488	6,356,762	(271,726)
Adult/Continuing education	216,624	360,479	374,469	13,990
Support services:				
Pupil	644,219	726,532	682,479	(44,053)
Instructional staff	1,787,071	2,436,130	2,140,402	(295,728)
Business services	1,163,470	1,159,118	1,121,597	(37,521)
School administration	2,398,616	2,339,478	2,305,468	(34,010)
Business	929,206	818,730	730,863	(87,867)
Operations and maintenance	3,256,507	3,460,199	3,717,591	257,392
Pupil transportation services	1,337,271	1,292,485	1,060,685	(231,800)
Technology	1,263,685	1,331,039	1,322,955	(8,084)
Athletics	880,874	955,259	952,712	(2,547)
Community services	261,587	287,814	275,784	(12,030)
Total expenditures	40,075,897	40,744,966	38,589,431	(2,155,535)
Excess of Revenue Over Expenditures	805,750	257,072	3,057,435	2,800,363
Other Financing Sources (Uses)				
Transfers in	-	-	45,045	45,045
Transfers out	(1,154,000)	(1,154,000)	(1,814,060)	(660,060)
Total other financing uses	(1,154,000)	(1,154,000)	(1,769,015)	(615,015)
Net Change in Fund Balance	(348,250)	(896,928)	1,288,420	2,185,348
Fund Balance - Beginning of year	10,501,412	10,501,412	10,501,412	-
Fund Balance - End of year	<u>\$ 10,153,162</u>	<u>\$ 9,604,484</u>	<u>\$ 11,789,832</u>	<u>\$ 2,185,348</u>

Sturgis Public School District

Required Supplementary Information Schedule of Proportionate Share of the Net Pension Liability Michigan Public School Employees' Retirement System

	Last Ten Plan Years Years Ended September 30									
	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
School District's proportion of the net pension liability	0.16056 %	0.15851 %	0.16481 %	0.17208 %	0.17569 %	0.18026 %	0.18634 %	0.19169 %	0.19154 %	0.18455 %
School District's proportionate share of the net pension liability	\$ 39,309,222	\$ 51,304,775	\$ 61,982,723	\$ 40,741,116	\$ 60,352,920	\$ 59,694,853	\$ 56,017,631	\$ 49,674,253	\$ 47,787,967	\$ 45,076,849
School District's covered payroll	\$ 16,986,803	\$ 16,042,480	\$ 15,317,119	\$ 15,552,957	\$ 15,459,504	\$ 15,639,301	\$ 15,559,751	\$ 15,939,649	\$ 16,901,310	\$ 15,512,555
School District's proportionate share of the net pension liability as a percentage of its covered payroll	231.41 %	319.81 %	404.66 %	261.95 %	390.39 %	381.70 %	360.02 %	311.64 %	282.75 %	290.58 %
Plan fiduciary net position as a percentage of total pension liability	74.44 %	65.91 %	60.77 %	72.32 %	59.49 %	60.08 %	62.12 %	63.96 %	63.01 %	62.92 %

Sturgis Public School District

Required Supplementary Information Schedule of Pension Contributions Michigan Public School Employees' Retirement System

**Last Ten Fiscal Years
Years Ended June 30**

	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Statutorily required contribution	\$ 7,003,453	\$ 6,911,483	\$ 7,541,906	\$ 5,763,354	\$ 5,285,804	\$ 4,917,558	\$ 4,828,059	\$ 4,777,546	\$ 4,611,787	\$ 4,473,771
Contributions in relation to the statutorily required contribution	7,003,453	6,911,483	7,541,906	5,763,354	5,285,804	4,917,558	4,828,059	4,777,546	4,611,787	4,473,771
Contribution Excess	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
School District's Covered Payroll	\$ 17,226,434	\$ 16,959,235	\$ 16,335,567	\$ 15,355,809	\$ 15,504,368	\$ 15,538,221	\$ 15,590,439	\$ 15,608,358	\$ 16,443,446	\$ 16,325,656
Contributions as a Percentage of Covered Payroll	40.66 %	40.75 %	46.17 %	37.53 %	34.09 %	31.65 %	30.97 %	30.61 %	28.05 %	27.40 %

Sturgis Public School District

Required Supplementary Information Schedule of Proportionate Share of the Net OPEB (Asset) Liability Michigan Public School Employees' Retirement System

	Last Eight Plan Years Years Ended September 30							
	2024	2023	2022	2021	2020	2019	2018	2017
School District's proportion of the net OPEB (asset) liability	0.15953 %	0.15927 %	0.15662 %	0.17119 %	0.17387 %	0.17869 %	0.18265 %	0.19206 %
School District's proportionate share of the net OPEB (asset) liability	\$ (6,866,902) \$	(901,005) \$	3,317,336 \$	2,613,061 \$	9,314,696 \$	12,825,586 \$	14,518,843 \$	17,007,651
School District's covered payroll	\$ 16,986,803 \$	16,042,480 \$	15,317,119 \$	15,552,957 \$	15,459,504 \$	15,639,301 \$	15,559,751 \$	15,939,649
School District's proportionate share of the net OPEB (asset) liability as a percentage of its covered payroll	(40.42)%	(5.62)%	21.66 %	16.80 %	60.25 %	82.01 %	93.31 %	106.70 %
Plan fiduciary net position as a percentage of total OPEB liability	143.08 %	105.04 %	83.09 %	88.87 %	59.76 %	48.67 %	43.10 %	36.53 %

Sturgis Public School District

Required Supplementary Information Schedule of OPEB Contributions Michigan Public School Employees' Retirement System

	Last Eight Fiscal Years Years Ended June 30							
	2025	2024	2023	2022	2021	2020	2019	2018
Statutorily required contribution	\$ 512,917	\$ 1,393,273	\$ 1,314,882	\$ 1,251,376	\$ 1,290,235	\$ 1,248,589	\$ 1,224,633	\$ 1,127,349
Contributions in relation to the statutorily required contribution	512,917	1,393,273	1,314,882	1,251,376	1,290,235	1,248,589	1,224,633	1,127,349
Contribution Excess	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
School District's Covered Payroll	\$ 17,226,434	\$ 16,959,235	\$ 16,335,567	\$ 15,355,809	\$ 15,504,368	\$ 15,538,221	\$ 15,590,439	\$ 15,608,358
Contributions as a Percentage of Covered Payroll	2.98 %	8.22 %	8.05 %	8.15 %	8.32 %	8.04 %	7.86 %	7.22 %

Pension Information

The required contributions for the year ended June 30, 2025 include a one-time contribution of \$401,664, referred to as 147c(2), related to funding received from the State and remitted to the System for the purpose of contributing additional assets to the System.

Benefit Changes

There were no changes of benefit terms for each of the reported plan years ended September 30.

Changes in Assumptions

There were no significant changes of assumptions for each of the reported plan years ended September 30 except for the following:

- 2023 - The valuation includes the impact of an updated experience study for periods from 2017 to 2022.
- 2022 - The discount rate and investment rate of return used in the September 30, 2022 actuarial valuation decreased by 0.80 percentage points.
- 2021 - The health care cost trend rate used in the September 30, 2020 actuarial valuation increased by 0.75 percentage points for members under 65 and decreased by 1.75 percentage points for members over 65. In addition, actual per person health benefit costs were lower than projected. This reduced the plan's total OPEB liability by \$1.3 billion in 2021.
- 2020 - The health care cost trend rate used in the September 30, 2019 actuarial valuation decreased by 0.50 percentage points and actual per person health benefit costs were lower than projected. This reduced the plan's total OPEB liability by \$1.8 billion in 2020.
- 2019 - The discount rate used in the September 30, 2018 actuarial valuation decreased by 0.25 percentage points.
- 2018 - The discount rate used in the September 30, 2017 actuarial valuation decreased by 0.45 percentage points. The valuation also includes the impact of an updated experience study for periods from 2012 to 2017.
- 2017 - The discount rate used in the September 30, 2016 actuarial valuation decreased by 0.50 percentage points.

OPEB Information

Ultimately, 10 years of data will be presented in both of the OPEB-related schedules. The number of years currently presented represents the number of years since the accounting standard requiring these schedules first became applicable.

Benefit Changes

There were no changes of benefit terms for each of the reported plan years ended September 30.

Changes in Assumptions

There were no significant changes of assumptions for each of the reported plan years ended September 30 except for the following:

- 2024 - The health care cost trend rate used in the September 30, 2024 actuarial valuation decreased by 0.25 percentage points for members under 65 and increased by 0.25 percentage points for members over 65.
- 2023 - The health care cost trend rate used in the September 30, 2023 actuarial valuation decreased by 0.25 percentage points for members under 65 and increased by 1.00 percentage points for members over 65. In addition, actual per person health benefit costs were lower than projected. The valuation includes the impact of an updated experience study for periods from 2017 to 2022.

June 30, 2025

- 2022 - The discount rate and investment rate of return used in the September 30, 2022 actuarial valuation decreased by 0.95 percentage points. This resulted in lower than projected per person health benefit costs to reduce the plan's total OPEB liability by an additional \$1.1 billion in 2022.
- 2021 - The health care cost trend rate used in the September 30, 2020 actuarial valuation increased by 0.75 percentage points for members under 65 and decreased by 1.75 percentage points for members over 65. In addition, actual per person health benefit costs were lower than projected. This reduced the plan's total OPEB liability by \$1.3 billion in 2021.
- 2020 - The health care cost trend rate used in the September 30, 2019 actuarial valuation decreased by 0.50 percentage points and actual per person health benefit costs were lower than projected. This reduced the plan's total OPEB liability by \$1.8 billion in 2020.
- 2019 - The discount rate used in the September 30, 2018 actuarial valuation decreased by 0.20 percentage points. The valuation also includes the impact of an updated experience study for periods from 2012 to 2017. This resulted in a lower than projected per person health benefit cost to reduce the plan's total OPEB liability by an additional \$1.4 billion in 2019.
- 2018 - The discount rate used in the September 30, 2017 actuarial valuation decreased by 0.35 percentage points. The valuation also includes the impact of an updated experience study for periods from 2012 to 2017. This resulted in a lower than projected per person health benefit cost to reduce the plan's total OPEB liability by \$1.4 billion in 2018.

Other Supplementary Information

Sturgis Public School District

Other Supplementary Information Combining Balance Sheet Nonmajor Governmental Funds

June 30, 2025

	Special Revenue Funds			Debt Service Funds			Capital Project Funds			Total Nonmajor Governmental Funds
	Food Service	Community Services	Student Activity	2015 Series A and 2025 Refunding Bonds	2019 Refunding Bond	2021 Refunding Bonds	Energy Conservation Improvement	Building and Site Sinking	Athletics (Public Improvements)	
Assets										
Cash and investments	\$ 576,990	\$ 10,257	\$ 590,833	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 132,177	\$ 1,310,257
Receivables - Due from other governments	48,427	-	-	12,955	5,979	997	-	4,900	-	73,258
Inventories	27,323	-	-	-	-	-	-	-	-	27,323
Prepaid costs	100,000	-	-	-	-	-	-	-	-	100,000
Restricted assets	-	-	-	90,353	52,553	36,202	9,152	1,606,602	-	1,794,862
Total assets	\$ 752,740	\$ 10,257	\$ 590,833	\$ 103,308	\$ 58,532	\$ 37,199	\$ 9,152	\$ 1,611,502	\$ 132,177	\$ 3,305,700
Liabilities										
Accounts payable	\$ 13,587	\$ 1,033	\$ 40,753	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 55,373
Due to other funds	-	-	-	-	-	-	-	-	120,000	120,000
Accrued payroll and other liabilities	2,360	18,278	-	-	-	-	-	-	-	20,638
Total liabilities	15,947	19,311	40,753	-	-	-	-	-	120,000	196,011
Fund Balances (Deficit)										
Nonspendable - Inventory and prepaids	127,323	-	-	-	-	-	-	-	-	127,323
Restricted:										
Debt service	-	-	-	103,308	58,532	37,199	-	-	-	199,039
Capital projects	-	-	-	-	-	-	9,152	1,611,502	-	1,620,654
Food service	609,470	-	-	-	-	-	-	-	-	609,470
Committed - Student Activity Fund	-	-	550,080	-	-	-	-	-	-	550,080
Assigned - Capital improvements	-	-	-	-	-	-	-	-	12,177	12,177
Unassigned	-	(9,054)	-	-	-	-	-	-	-	(9,054)
Total fund balances (deficit)	736,793	(9,054)	550,080	103,308	58,532	37,199	9,152	1,611,502	12,177	3,109,689
Total liabilities and fund balances (deficit)	\$ 752,740	\$ 10,257	\$ 590,833	\$ 103,308	\$ 58,532	\$ 37,199	\$ 9,152	\$ 1,611,502	\$ 132,177	\$ 3,305,700

Sturgis Public School District

Other Supplementary Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances Nonmajor Governmental Funds

Year Ended June 30, 2025

	Special Revenue Funds			Debt Service Funds			Capital Project Funds			Total Nonmajor Governmental Funds
	Food Service	Community Services	Student Activity	2015 Series A and 2025 Refunding Bonds	2019 Refunding Bond	2021 Refunding Bonds	Building and Site Sinking	Energy Conservation Improvement	Athletics (Public Improvements)	
Revenue										
Local sources	\$ 60,153	\$ 24,927	\$ 515,700	\$ 2,371,868	\$ 1,270,192	\$ 245,529	\$ 977,025	\$ 230	\$ 26,118	\$ 5,491,742
State sources	345,607	-	-	-	-	-	-	-	-	345,607
Federal sources	2,193,231	-	-	-	-	-	-	-	-	2,193,231
Total revenue	2,598,991	24,927	515,700	2,371,868	1,270,192	245,529	977,025	230	26,118	8,030,580
Expenditures										
Current:										
Support services	-	-	527,781	-	-	-	-	-	-	527,781
Food services	2,762,241	-	-	-	-	-	-	-	-	2,762,241
Community services	-	77,026	-	-	-	-	-	-	-	77,026
Debt service:										
Principal	-	-	-	1,861,436	1,097,414	185,000	-	120,000	-	3,263,850
Interest	-	-	-	416,842	121,856	35,253	-	13,935	-	587,886
Other debt costs	-	-	-	130,353	520	519	-	520	-	131,912
Capital outlay	118,284	-	-	-	-	-	78,436	-	-	196,720
Total expenditures	2,880,525	77,026	527,781	2,408,631	1,219,790	220,772	78,436	134,455	-	7,547,416
Excess of Revenue (Under) Over Expenditures	(281,534)	(52,099)	(12,081)	(36,763)	50,402	24,757	898,589	(134,225)	26,118	483,164
Other Financing Sources (Uses)										
Premium on debt issued	-	-	-	463,412	-	-	-	-	-	463,412
Face value of debt issued	-	-	-	8,125,000	-	-	-	-	-	8,125,000
Transfers in	18,260	-	-	-	-	-	-	135,000	-	153,260
Payment to bond refunding escrow agent	-	-	-	(8,458,613)	-	-	-	-	-	(8,458,613)
Transfers out	(45,045)	-	-	-	-	-	-	-	(120,000)	(165,045)
Total other financing (uses) sources	(26,785)	-	-	129,799	-	-	-	135,000	(120,000)	118,014
Net Change in Fund Balances	(308,319)	(52,099)	(12,081)	93,036	50,402	24,757	898,589	775	(93,882)	601,178
Fund Balances - Beginning of year	1,045,112	43,045	562,161	10,272	8,130	12,442	712,913	8,377	106,059	2,508,511
Fund Balances (Deficit) - End of year	\$ 736,793	\$ (9,054)	\$ 550,080	\$ 103,308	\$ 58,532	\$ 37,199	\$ 1,611,502	\$ 9,152	\$ 12,177	\$ 3,109,689

Sturgis Public School District

**Other Supplementary Information
Schedule of Bonded Indebtedness**

June 30, 2025

Years Ending June 30	2019 Refunding Bonds	Energy Conservation Improvement Bonds	2021 Refunding Bonds	2025 Refunding Bonds	Total
	Principal	Principal	Principal	Principal	
2026	\$ 1,155,000	\$ 120,000	\$ 235,000	\$ 1,880,000	\$ 3,390,000
2027	1,280,000	125,000	290,000	1,865,000	3,560,000
2028	1,395,000	130,000	665,000	375,000	2,565,000
2029	-	130,000	870,000	1,625,000	2,625,000
2030	-	130,000	-	2,380,000	2,510,000
Total remaining payments	\$ 3,830,000	\$ 635,000	\$ 2,060,000	\$ 8,125,000	\$ 14,650,000
Interest rate	2.05% to 2.34%	1.60% to 2.02%	1.00% to 1.75%	5.0%	
Original issue	\$ 5,780,000	\$ 1,200,000	\$ 2,355,000	\$ 8,125,000	\$ 17,460,000

Principal payments for the bond issues are due on May 1 of each year.
Interest payments for the bond issues are due on May 1 and November 1 of each year.

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*

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

Independent Auditor's Report

To Management and the Board of Education
Sturgis Public School District

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information (tailor this cell for specific opinion units) of Sturgis Public School District (the "School District") as of and for the year ended June 30, 2025 and the related notes to the financial statements, which collectively comprise the School District's basic financial statements and have issued our report thereon dated October 6, 2025.

Report on Internal Control Over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

To Management and the Board of Education
Sturgis Public School District

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 School District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Plante & Moran, PLLC

October 6, 2025