

HILLSDALE PREPARATORY SCHOOL

FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2023

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Hillsdale Preparatory School  
Hillsdale, Michigan

### Report on the Audit of the Financial Statements

#### Opinions

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hillsdale Preparatory School (the School Academy), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise Hillsdale Preparatory School's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Hillsdale Preparatory School, as of June 30, 2023, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### Basis for Opinions

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

#### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Hillsdale Preparatory School's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

#### Auditor's Responsibilities for the Audit of the Financial Statements

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

Board of Directors  
Hillsdale Preparatory School

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Hillsdale Preparatory School'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 Hillsdale Preparatory School'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 budgetary comparison information pages 3 - 6 and page 23 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2023, on our consideration of Hillsdale Preparatory School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Hillsdale Preparatory School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hillsdale Preparatory School's internal control over financial reporting and compliance.

*Bailey Hodstine & Company, P.C.*  
Jonesville, Michigan  
October 5, 2023

## MANAGEMENT'S DISCUSSION & ANALYSIS

# Hillsdale Preparatory School

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## Management's Discussion and Analysis Year Ended June 30, 2023

Our discussion and analysis of Hillsdale Preparatory School's (the School Academy's) financial performance provides an overview of the School Academy's financial activities for the fiscal year ended June 30, 2023. The management's discussion and analysis is provided at the beginning of the audit to provide in layman's terms, the past and current position of the School Academy's financial condition. This summary should not be taken as a replacement for the audit which consists of the financial statements and other supplemental information that presents all the revenues and expenditures by program for all the School Academy's funds.

### USING THIS ANNUAL REPORT

The School Academy's annual report consists of a series of financial statements that show information for the School Academy as a whole, its funds, and its fiduciary responsibilities. The Statement of Net Position and the Statement of Activities (pages 7 - 8), provide information about the activities of the School Academy as a whole and present a longer-term view of the School Academy's finances. Our fund financial statements start on page 9. Our governmental activities statements tell how we financed our services in the short-term, as well as what remains for future spending. Fund financial statements report the School Academy's operations in more detail than governmental-wide financial statements by providing information about the School Academy's most significant funds.

### Reporting the School Academy as a Whole

One of the most important questions asked about the School Academy is, "Is the School Academy as a whole better off or worse off financially as a result of the year's activities?" The Statement of Net Position and the Statement of Activities, which appear first in the School Academy's financial statements, report information on the School Academy as a whole and its activities in a way that helps answer this question. We prepared these statements to include all assets and liabilities, using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenue and expenses, regardless of when cash is received or paid.

These two statements report the School Academy's *net position* – the difference between assets and liabilities, as reported in the Statement of Net Position – as one way to measure the School Academy's financial health or *financial position*. Over time, *increases* or *decreases* in the School Academy's net position – as reported in the Statement of Activities – are one indicator of whether its *financial health* is improving or deteriorating. The relationship between revenues and expenses indicates the School Academy's *operating results*. However, the School Academy's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the school to assess the *overall health* of the School Academy.

# Hillsdale Preparatory School

## Management's Discussion and Analysis Year Ended June 30, 2023

### Reporting the School Academy's Most Significant Funds

The School Academy's Fund Financial Statements, which begin on page 9, provide detailed information about the School Academy's most significant funds – not the School Academy as a whole. Some funds are required to be established by State law and by bond covenants. However, the School Academy establishes other funds to help it show that it is meeting legal responsibilities for using certain taxes, grants, and other money (like the Debt Service Fund).

Governmental fund reporting focuses on showing how money flows into and out of the funds and the balances left at year-end that are available for spending in future periods. 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 School Academy's operations 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 Academy'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 reconciliations on pages 10 and 12.

### Government-Wide Financial Analysis

The government-wide financial analysis focuses on the net position and changes in net position of the School Academy's governmental activities.

The following is a summary of the School Academy's net position as of June 30, 2022 and 2023:

	2022	2023
Assets		
Current Assets	\$ 319,420	\$ 458,337
Noncurrent Assets	<u>1,345,542</u>	<u>1,446,351</u>
Total Assets	<u>\$ 1,664,962</u>	<u>\$ 1,904,688</u>
Liabilities		
Current Liabilities	\$ 83,633	\$ 139,798
Long-term Liabilities	<u>476,304</u>	<u>492,777</u>
Total Liabilities	<u>\$ 559,937</u>	<u>\$ 632,575</u>
Net Position		
Net Investment in Capital Assets	\$ 847,269	\$ 901,222
Unrestricted	<u>257,756</u>	<u>370,891</u>
Total Net Position	<u>\$ 1,105,025</u>	<u>\$ 1,272,113</u>

# Hillsdale Preparatory School

## Management's Discussion and Analysis Year Ended June 30, 2023

### Government-Wide Financial Analysis (Concluded)

The results of this year's operations for the School Academy as a whole are reported in the Statement of Activities which shows the change in net position for fiscal year 2023.

The following is a summary of the changes in net position for the years ended June 30, 2022 and 2023:

	2022	2023
Program Revenue		
Charges for Services	\$ 4,800	\$ 9,360
Operating Grants and Contributions	201,823	191,668
Capital Grants and Contributions	0	50,000
General Revenue		
State Aid	589,674	784,632
Miscellaneous	25,770	67,425
Total Revenue	\$ 822,067	\$ 1,103,085
Expenses		
Instruction	\$ 370,892	\$ 381,329
Support Services	451,340	467,117
Depreciation - unallocated	45,898	48,661
Debt interest and other	27,131	38,890
Total Expenses	\$ 895,261	\$ 935,997
INCREASE (DECREASE) IN NET POSITION	\$ (73,194)	\$ 167,088

The School Academy's net position increased by \$167,088 during the current fiscal year. The increase in net position differs from the change in fund balance and a reconciliation appears on page 12.

As shown above, the cost of all our governmental activities this year was \$935,997. This cost was paid primarily by charges for services, operating grants and contributions, and State Aid.

### GENERAL FUND BUDGETING AND OPERATING HIGHLIGHTS

The School Academy's budgets are prepared according to Michigan Law. The most significant budgeted fund is the General Fund. During the fiscal year ended June 30, 2023, the School Academy amended the General Fund Budget twice.

The actual revenue and other proceeds of the General Fund was \$1,166,315 which was higher than both the original budget estimate of \$947,602 and the final amended budget of \$1,152,285.

The final amended budget revenue was increased by \$204,683 over the original budget revenue due to a higher than originally anticipated student count, a higher per pupil funding amount of \$450 additional per pupil, and the issuance of a new loan to fund the replacement of the parking lot.



# Hillsdale Preparatory School

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## Management's Discussion and Analysis Year Ended June 30, 2023

The actual expenditures and transfers out of the General Fund were \$1,053,180, which was higher than the original budget estimate of \$1,017,589, and less than the final amended budget estimate of \$1,084,117.

The original budget for expenditures was developed not anticipating the cost to replace the School Academy's parking lot. The final amended budget for expenditures was conservative in nature but was close to actual expenditures, within approximately 3%.

### **CAPITAL ASSET AND DEBT ADMINISTRATION**

At the end of fiscal year 2023, the School Academy had \$2,432,602 invested in land, buildings, furniture, and equipment. We have estimated that these assets have depreciated by \$986,251 through June 30, 2023; therefore, we currently have net book value of \$1,446,351. Capital assets at year-end were as follows:

Land	\$ 100,000
Equipment	118,366
Buildings and improvements	2,214,236
Less: Accumulated Depreciation	<u>(986,251)</u>
Total Capital Assets, net of Depreciation	<u>\$ 1,446,351</u>

At June 30, 2023, the School Academy had bonds outstanding, as shown below:

General Obligation Bonds	\$ 481,899
Parking Lot Loan	<u>63,230</u>
Total Long-Term Debt	<u>\$ 545,129</u>

### **FACTORS BEARING ON THE SCHOOL ACADEMY'S FUTURE**

The School Academy experienced an increase in enrollment for the 22-23 school year but is expecting a decrease in enrollment for the 23-24 school year. The goal of the School Academy is to maintain its student count while still delivering an excellent educational experience.

### **CONTACTING THE SCHOOL ACADEMY FINANCIAL MANAGEMENT**

This report is designed to give an overview of the financial conditions of the Hillsdale Preparatory School. If you have any questions about this report or need further information, you may contact the School Academy by phone at 517-437-7990 located at 160 W. Mechanic Street, Hillsdale, Michigan 49242.

## BASIC FINANCIAL STATEMENTS

**Hillsdale Preparatory School**  
**Statement of Net Position**  
**June 30, 2023**

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash	\$ 238,815
Receivables	
Due from other governmental units	206,525
Prepaid expenses	12,997
Capital assets less accumulated depreciation of \$986,251	<u>1,446,351</u>
Total assets	<u>\$ 1,904,688</u>
 <b>Liabilities</b>	
Accounts payable	\$ 8,598
Accrued salaries and benefits	53,995
Unearned revenue	24,853
Long-term debt - current portion	52,352
Long-term debt - due in more than one year	<u>492,777</u>
Total liabilities	<u>\$ 632,575</u>
 <b>Net Position</b>	
Net investment in capital assets	\$ 901,222
Unrestricted	<u>370,891</u>
Total net position	<u><u>\$ 1,272,113</u></u>

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

**Hillsdale Preparatory School**  
**Statement of Activities**  
**Year Ended June 30, 2023**

Functions/Programs	Expenses	Program Revenues			Governmental
		Charges for	Operating	Capital	Activities
		Services	Grants/ Contributions	Grants/ Contributions	Net (Expenses) Revenues and Change in Net Assets
<b>Primary Government</b>					
<b>Governmental activities:</b>					
Basic programs	\$ 286,146	\$	\$ 20,621		\$ (265,525)
Added needs	95,183		112,246		17,063
Pupil support services	770				(770)
Instructional staff support services	30,987		26,645		(4,342)
General administration	179,567				(179,567)
School administration	61,342		3,424		(57,918)
Business support services	20,962				(20,962)
Operations and maintenance	140,149	9,360			(130,789)
Central support services	15,393		17,739	50,000	52,346
Other support services	6,954				(6,954)
Facility improvements	10,993		10,993		
Debt interest and other	38,890				(38,890)
Unallocated depreciation	48,661				(48,661)
<b>Total governmental activities</b>	<b>\$ 935,997</b>	<b>\$ 9,360</b>	<b>\$ 191,668</b>	<b>\$ 50,000</b>	<b>\$ (684,969)</b>
<b>General revenues:</b>					
State aid - unrestricted					\$ 784,632
Other					67,425
<b>Total general revenues</b>					<b>852,057</b>
<b>Change in Net Position</b>					<b>167,088</b>
<b>Net Position - Beginning of Year</b>					<b>1,105,025</b>
<b>Net Position - End of Year</b>					<b>\$ 1,272,113</b>

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

**Hillsdale Preparatory School**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2023**

	<u>General Fund</u>	<u>Debt Fund</u>	<u>Total</u>
<b>Current Assets</b>			
Cash	\$ 238,815	\$	\$ 238,815
Due from other governmental units	206,525		206,525
Prepaid expenditures	<u>12,997</u>	<u></u>	<u>12,997</u>
Total current assets	<u>\$ 458,337</u>	<u>\$</u>	<u>\$ 458,337</u>
 <b>Liabilities</b>			
Accounts payable	\$ 8,598	\$	\$ 8,598
Accrued salaries and benefits	53,995		53,995
Unearned revenue	<u>24,853</u>	<u></u>	<u>24,853</u>
Total liabilities	<u>87,446</u>	<u></u>	<u>87,446</u>
 <b>Fund Balances</b>			
Assigned	57,505		57,505
Unassigned	<u>313,386</u>	<u></u>	<u>313,386</u>
Total fund balances	<u>370,891</u>	<u></u>	<u>370,891</u>
Total liabilities and fund balances	<u>\$ 458,337</u>	<u>\$</u>	<u>\$ 458,337</u>

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

**Hillsdale Preparatory School**  
**Reconciliation of the Governmental Funds Balance Sheet**  
**with the Statement of Net Position**  
**June 30, 2023**

<b>Total Fund Balances - Governmental Funds</b>	<b>\$ 370,891</b>
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Amounts reported for governmental activities in the Statement  
of Net Position are different because:

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

Cost of capital assets	\$ 2,432,602	
Accumulated depreciation	<u>(986,251)</u>	
		1,446,351

Long-term liabilities not due and payable in the current period and not reported in the funds.	<u>(545,129)</u>
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<b>Total Net Position - Governmental Activities</b>	<b><u><u>\$ 1,272,113</u></u></b>
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The accompanying notes are an integral part of these financial statements.

**Hillsdale Preparatory School**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**Year Ended June 30, 2023**

	<u>General Fund</u>	<u>Debt Fund</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>			
Local sources	\$ 76,785	\$	\$ 76,785
State sources	901,859		901,859
Federal sources	124,441		124,441
	<u>1,103,085</u>		<u>1,103,085</u>
<b>Expenditures</b>			
Basic programs	286,146		286,146
Added needs	95,183		95,183
Pupil support services	770		770
Instructional staff support services	30,987		30,987
General administration	179,567		179,567
School administration	61,342		61,342
Business support services	20,962		20,962
Operations and maintenance	140,149		140,149
Central support services	15,393		15,393
Other support services	6,954		6,954
Facility improvements	10,993		10,993
Capital outlay	149,470		149,470
Debt principal, interest and fees		55,264	55,264
	<u>997,916</u>	<u>55,264</u>	<u>1,053,180</u>
<b>Revenues Over (Under) Expenditures</b>	<u>105,169</u>	<u>(55,264)</u>	<u>49,905</u>
<b>Other Financing Sources (Uses)</b>			
Loan proceeds	63,230		63,230
Operating transfers in	0	55,264	
Operating transfers out	(55,264)		(55,264)
	<u>7,966</u>	<u>55,264</u>	<u>63,230</u>
<b>Net Changes in Fund Balances</b>	113,135		113,135
<b>Fund Balances - Beginning of Year</b>	<u>257,756</u>		<u>257,756</u>
<b>Fund Balances - End of Year</b>	<u>\$ 370,891</u>	<u>\$</u>	<u>\$ 370,891</u>

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

**Hillsdale Preparatory School**  
**Reconciliation of the Change in Fund Balances**  
**of Governmental Funds to the Statement of Activities**  
**Year Ended June 30, 2023**

<b>Net Changes in Fund Balances - Total Governmental Funds</b>	<b>\$ 113,135</b>
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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, assets are capitalized and the cost is  
allocated over their estimated useful lives and reported as depreciation.

	149,470
Purchase/acquisition of capital assets	(48,661)
Depreciation and amortization expense	

Proceeds from long-term debt provide current financial resources to governmental  
funds in the period issued, but they increase liabilities in the Statement of Net Position.  
Repayment of long-term debt is an expenditure in the governmental funds, but  
it reduces liabilities in the Statement of Net Position.

	(63,230)
Long-term debt proceeds received	16,374
Principal payments on long-term debt	<u>16,374</u>

<b>Change in Net Position of Governmental Activities</b>	<b><u>\$ 167,088</u></b>
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The accompanying notes are an integral part of these financial statements.



NOTES TO FINANCIAL STATEMENTS

# **HILLSDALE PREPARATORY SCHOOL**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2023**

### **Note 1: Summary of Significant Accounting Policies**

The accounting policies of Hillsdale Preparatory School (the "School Academy") conform to generally accepted accounting principles applicable to public school academies. The following is a summary of the significant accounting policies:

#### **Reporting Entity**

Hillsdale Preparatory School, formerly Sauk Trail Academy, was formed as a public school academy pursuant to the Michigan School Code of 1976, as amended by Act No. 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994. The School Academy filed articles of incorporation as a nonprofit corporation pursuant to the provisions of the Michigan Nonprofit Corporation Act of 1982, as amended, on May 30, 1997, and began operation in June 2001.

The School Academy is contracted with Grand Valley State University (GVSU) to charter the public school academy. The contract requires the School Academy to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the State constitution. GVSU is the fiscal agent for the School Academy and is responsible for overseeing the School Academy's compliance with the contract and all applicable laws. The School Academy pays GVSU three percent of state aid as administrative fees. Total administrative fees paid for the year ended June 30, 2023 were \$23,748.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational or financial relationships with the School Academy. Based on application of criteria, the School Academy does not contain component units.

#### **Fund Financial Statements**

Fund financial statements report detailed information about the School Academy. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The School Academy has elected to designate all of its funds as major.

#### **Basis of Presentation – Fund Accounting**

The accounts of the School Academy are organized on the basis of funds. The operations of a fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenue and expenditures. Government resources are allocated to and accounted for in individual funds based on the purposes for which they are to be spent and the means by which spending activities are controlled.

# HILLSDALE PREPARATORY SCHOOL

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

### Governmental Funds

A governmental fund is a fund through which most academy functions typically are financed. The acquisition, use and balances of the School Academy's expendable financial resources and the related current liabilities are accounted for through a governmental fund.

**General Fund** – The general fund is used to record the general operations of the School Academy pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

**Debt Service Fund** – The debt service fund is used to record certain revenue and the payment of interest, principal and other expenditures on long-term debt.

Governmental funds utilize the modified accrual basis of accounting. Modifications in such method from the accrual basis are as follows:

- a. Revenue that is both measurable and available for use to finance operations is recorded as revenue when earned. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School Academy considers revenues to be available if they are collected within sixty days of the end of the current fiscal period.
- b. Payments for inventorable types of supplies, which are not significant at year end, are recorded as expenditures at the time of purchase.
- c. Principal and interest of general long-term debt are not recorded as expenditures until their due dates.
- d. The State of Michigan utilizes a foundation allowance funding approach, which provides for specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenue from state sources is primarily governed by the School Aid Act and the School Code of Michigan. The state portion of the foundation is provided from the State's School Aid Fund and is recognized as revenue in accordance with state law. A major portion of the School Academy's revenue is derived from this state aid. As such, the School Academy is considered to be economically dependent on this aid. The School Academy's existence is dependent upon qualification for such aid.

### Government-Wide Financial Statements

The government-wide financial statements (i.e. the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This approach differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliations with brief explanations to better identify the relationships between the government-wide statements and the statements for governmental funds.

# **HILLSDALE PREPARATORY SCHOOL**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2023**

The government-wide Statement of Activities presents a comparison between expenses and program revenues for each segment of the business-type activities of the Academy and for each governmental program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. The School Academy does not allocate indirect expenses to programs. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or function is self-financing or draws from the general revenues of the School Academy. When both restricted and unrestricted resources are available for use, it is the School Academy's policy to use restricted resources first.

Net position should be reported as restricted when constraints placed on net position use are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The School Academy first utilizes restricted resources to finance qualifying activities.

### **Deferred Outflows/Inflows of Resources**

In addition to assets, government-wide and fund financial statements will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The School Academy had no items that qualify for reporting in this category.

In addition to liabilities, government-wide and fund financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows or resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The School Academy had no items that qualify for reporting in this category.

### **Cash and Cash Equivalents**

The School Academy's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with maturities of three months or less from the date of acquisition. The School Academy reports its investments in accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools and GASB No. 40, Deposit and Investment Risk Disclosures. Under these standards, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the School Academy intends to hold the investment until maturity.

## **HILLSDALE PREPARATORY SCHOOL**

### **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2023**

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

#### **Receivables**

Receivables at June 30, 2023 consist primarily of state school aid due from the State of Michigan and the federal government. All receivables are expected to be fully collected in July and August of 2023 and are considered current for the purposes of these financial statements.

#### **Prepaid Assets**

Payments made to vendors for services that will benefit periods beyond June 30, 2023, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure is reported in the year in which services are consumed.

#### **Capital Assets and Depreciation**

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions or retirements during the year. The School Academy follows the policy of not capitalizing assets with a useful life of less than one year. The School Academy does not possess any infrastructure assets.

All reported capital assets, with the exception of land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Building and improvements	10-50 years
Furniture and equipment	5-15 years
Computers and software	3-10 years

#### **Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, the non-current portion of leases that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

#### **Leases**

The School Academy determines if an arrangement is or contains a lease at inception. Leases are included in right-to-use assets and lease liabilities in the statement of financial position. Right-to-use assets and lease liabilities reflect the present value of the future minimum lease payments over the lease term. Lease expense is recognized as amortization on a straight-line basis over the lease term. The School Academy does not report right-to-use assets and liabilities for its short term leases (leases with a term of 12 months or less).

# HILLSDALE PREPARATORY SCHOOL

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

### Net Position

Net position represents the difference between assets and liabilities. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School Academy or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

### Fund Equity

The School Academy reports fund equity in accordance with GASB 54. The intention of the GASB is to provide a more structured classification of fund balance and to improve the usefulness of fund balance reporting to the users of the School Academy's financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on those resources.

GASB 54 provides for two major types of fund balances, which are non-spendable and spendable. Non-spendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. The category typically includes prepaid items and inventories.

In addition to non-spendable fund balance, GASB 54 has provided a hierarchy of spendable fund balances, based on a hierarchy of spending constraints.

- a. *Restricted fund balance* – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- b. *Committed fund balance* – amounts constrained to specific purposes by the Board; to be reported as committed, amounts cannot be used for any other purposes unless the Board takes action to remove or change the constraint.
- c. *Assigned fund balance* – amounts the Board intends to use for a specific purpose; intent can be expressed by the Board or by an official or committee to which the Board delegates the authority.
- d. *Unassigned fund balance* – amounts that are available for any purpose; these amounts are reported only in the general fund.

The School Academy follows the policy that restricted, committed, or assigned amounts will be considered to have been spent when an expenditure is incurred for purposes for which both unassigned and restricted, committed, or assigned fund balances are available.

### 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 amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

# HILLSDALE PREPARATORY SCHOOL

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

**Note 2: Stewardship, Compliance and Accountability**

Annual budgets are adopted on a consistent basis with accounting principles generally accepted in the United States of America and state law for the general fund. All annual appropriations lapse at fiscal year end and encumbrances are not formally recorded.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the function level. State law requires the School Academy to have its budget in place by July 1. Expenditures in excess of amounts budgeted is a violation of Michigan Law. The School Academy is required to adopt a general fund budget. During the year ended June 30, 2023, the budget was amended in a legally permissible manner.

**Note 3: Deposits**

As of June 30, 2023, the School Academy had the following deposits:

Deposits

Demand deposits	<u>\$ 238,815</u>
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*Custodial credit risk* is the risk that in the event of bank failure, the School Academy's deposits may not be recovered. As of June 30, 2023, the School Academy's book balance of its deposits was \$238,815. The bank balance was \$244,056 and \$-0- was exposed to custodial credit risk.

*Interest rate risk* is the risk that changes in market interest rates will adversely affect the fair value of the instrument. State law limits the allowable investments and the maturities of some of the allowable investments as identified above. The School Academy does not currently hold any investments affected by interest rate risk.

*Credit risk* is the risk that an issuer of an instrument will not fulfill its obligation to the holder of the instrument. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The School Academy does not currently hold any such investments.

# HILLSDALE PREPARATORY SCHOOL

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

### Note 4: Capital Assets

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

	Balance July 1, 2022	Additions	Balance June 30, 2023
Building and improvements	\$ 2,073,571	\$ 140,465	\$ 2,214,236
Equipment and furniture	67,318		67,318
Computers	42,243	8,805	51,048
Land -- nondepreciable	100,000		100,000
Total cost	\$ 2,283,132	\$ 149,470	\$ 2,432,602
Less accumulated depreciation	(937,590)	(48,661)	(986,251)
Undepreciated cost	\$ 1,345,542	\$ 100,809	\$ 1,446,351

Depreciation expense was not charged to specific activities as the School Academy considers its assets to impact multiple activities and allocation is not practical.

### Note 5: Long-Term Obligations Payable

The following is a summary of long-term obligations for the School Academy during the year ended June 30, 2023:

#### Loan Information

	Interest Rate	Maturity Date	Other
2017 Refunding Bond	8.75%	6/1/2036	Hillsdale County National Bank general obligation bond. Monthly payments of \$5,205 including interest.
2023 Parking Lot Loan	8.75%	6/8/2025	Hillsdale County National Bank commercial loan. Monthly payments of \$2,896 including interest.



# HILLSDALE PREPARATORY SCHOOL

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

Debt service requirements to maturity are as follows:

Year ending June 30,	Principal	Interest	Total
2024	\$ 52,352	\$ 44,854	\$ 97,207
2025	55,628	41,578	97,207
2026	24,655	37,800	62,454
2027	26,933	35,521	62,454
2028	29,331	33,123	62,454
2029 – 2033	193,171	119,100	312,272
2034 – 2036	163,057	23,131	186,188
Total	<u>\$ 545,129</u>	<u>\$ 335,107</u>	<u>\$ 880,236</u>

### Loan Activity

	Balance July 1, 2022	Additions	Retirements and Payments	Balance June 30, 2023	Due Within One Year
2023 Parking Lot Loan	\$ 0	\$ 63,230	\$ 0	\$ 63,230	\$ 30,170
2017 Refunding Bond	<u>498,273</u>	<u>0</u>	<u>(16,374)</u>	<u>481,899</u>	<u>22,182</u>
	<u>\$ 498,273</u>	<u>\$ 63,230</u>	<u>\$ (16,374)</u>	<u>\$ 545,129</u>	<u>\$ 52,352</u>

### Note 6: Interfund Transfers

	General	Debt Service
Transfer In	\$	\$ 55,264
Transfer Out	(55,264)	

Transfers from the General Fund to the Debt Service Fund are to pay principal and interest on the 2017 Refunding Bond.

### Note 7: Risk Management

The School Academy 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 Academy has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

**HILLSDALE PREPARATORY SCHOOL**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2023**

**Note 8: Fund Balance Constraints**

Fund balance has been constrained for the following purposes at June 30, 2023:

Budgeted 2023-24 excess of expenditures over revenue	\$ 57,505
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**Note 9: Subsequent Events**

Subsequent events were evaluated through October 5, 2023, the date of the independent auditor's report.

## REQUIRED SUPPLEMENTARY INFORMATION

**Hillsdale Preparatory School**  
**Budgetary Comparison Schedule - General Fund**  
**Year Ended June 30, 2023**

	Budgeted Amounts		Actual	Over (under) Final Budget
	Original	Final		
<b>Revenues</b>				
Local sources	\$ 24,300	\$ 67,800	\$ 76,785	\$ 8,985
State sources	709,900	849,286	901,859	52,573
Federal sources	213,402	171,969	124,441	(47,528)
<b>Total revenues</b>	<b>947,602</b>	<b>1,089,055</b>	<b>1,103,085</b>	<b>14,030</b>
<b>Expenditures</b>				
Basic programs	325,650	292,218	286,146	(6,072)
Added needs	107,925	95,631	95,183	(448)
Pupil support services	1,100	800	770	(30)
Instructional staff support services	25,200	31,650	30,987	(663)
General administration	162,422	182,118	179,567	(2,551)
School administration	55,189	63,650	61,342	(2,308)
Business support services	20,100	25,500	20,962	(4,538)
Operation and maintenance	140,950	152,239	140,149	(12,090)
Central support services	50,675	15,732	15,393	(339)
Other support services	35,578	4,250	6,954	2,704
Facility improvements	0	10,994	10,993	(1)
Capital outlay	44,800	150,035	149,470	(565)
<b>Total expenditures</b>	<b>969,589</b>	<b>1,024,817</b>	<b>997,916</b>	<b>(26,901)</b>
<b>Revenues Over (Under) Expenditures</b>	<b>(21,987)</b>	<b>64,238</b>	<b>105,169</b>	<b>40,931</b>
Loan proceeds	0	63,230	63,230	0
Transfers and other fund modifications	(48,000)	(59,300)	(55,264)	4,036
<b>Total other financing sources (uses)</b>	<b>(48,000)</b>	<b>3,930</b>	<b>7,966</b>	<b>4,036</b>
<b>Net Changes in Fund Balances</b>	<b>(69,987)</b>	<b>68,168</b>	<b>113,135</b>	<b>44,967</b>
<b>Fund Balances - Beginning of Year</b>	<b>220,443</b>	<b>257,756</b>	<b>257,756</b>	
<b>Fund Balances - End of Year</b>	<b>\$ 150,456</b>	<b>\$ 325,924</b>	<b>\$ 370,891</b>	<b>\$ 44,967</b>

## OTHER REPORTS

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

To the Board of Directors  
Hillsdale Preparatory School  
Hillsdale, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Hillsdale Preparatory School as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise Hillsdale Preparatory School's basic financial statements, and have issued our report thereon dated October 5, 2023.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

*Bailey Hodshire + Company, P.C.*

Jonesville, Michigan  
October 5, 2023