



# WEINLANDER FITZHUGH

HARRISON COMMUNITY SCHOOLS  
HARRISON, MICHIGAN

FINANCIAL STATEMENTS  
JUNE 30, 2018

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# WEINLANDER FITZHUGH

CERTIFIED PUBLIC ACCOUNTANTS  
& CONSULTANTS

## INDEPENDENT AUDITOR'S REPORT

October 5, 2018

Board of Education  
Harrison Community Schools  
Harrison, Michigan

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Harrison Community Schools (School District), as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Harrison Community Schools as of June 30, 2018 and the respective changes in financial position for the year then ended in accordance with U.S. generally accepted accounting principles.

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Board of Education  
Harrison Community Schools  
October 5, 2018

## ***Emphasis of Matter***

As discussed in Note 15 to the financial statements, in 2018, the School District adopted new accounting guidance, GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

## ***Other Matters***

### *Required Supplementary Information*

U.S. generally accepted accounting principles require that the management's discussion and analysis, budgetary comparison information, pension schedules and other postemployment benefits schedules as noted in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, 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 Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The combining nonmajor fund financial statements and schedules of bonded indebtedness are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and is also not a required part of the basic financial statements.

The combining nonmajor fund financial statements, schedules of bonded indebtedness and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 U.S. generally accepted auditing standards. In our opinion, the combining nonmajor fund financial statements, schedules of bonded indebtedness and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.



# WEINLANDER FITZHUGH

Board of Education  
Harrison Community Schools  
October 5, 2018

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2018, on our consideration of the School District'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 the 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 the School District's internal control over financial reporting and compliance.

*Weinlander Fitzhugh*

**HARRISON COMMUNITY SCHOOLS**  
Management's Discussion and Analysis  
For the Year Ended June 30, 2018

Our discussion and analysis of Harrison Community Schools' (School District) financial performance provides an overview of the School District's financial activities for the fiscal year ended June 30, 2018.

**Financial Highlights**

The School District's net position increased by \$1,524,339 or 23%. Program revenues were \$5,083,385 or 29% of total revenues, and general revenues were \$12,595,110 or 71%.

The General Fund reported a positive fund balance of \$2,380,708.

For the year ended June 30, 2018 School District implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. These changes are significant at the government-wide level.

The 2017 figures have not been updated for the adoption of GASB 75.

**Using this Annual Financial Report**

This annual financial report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand School District financially as a whole. The *District-wide Financial Statements* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a 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 as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds - the General Fund, 2017 Capital Projects Fund and 2018 Capital Projects Fund with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary net position, presents financial information about activities for which the School District acts solely as an agent for the benefit of students. The following summarizes the presentation included in this annual financial report.

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

Basic Financial Statements

- District-wide Financial Statements
- Fund Financial Statements
- Notes to the Basic Financial Statements

Budgetary Information for the General Fund (Required Supplemental Information)

Pension Schedules (Required Supplemental Information)

OPEB Schedules (Required Supplemental Information)

Other Supplemental Information

**HARRISON COMMUNITY SCHOOLS**  
Management's Discussion and Analysis  
For the Year Ended June 30, 2018

**Reporting the District as a Whole**

*The Statement of Net Position and Statement of Activities*

One of the most important questions asked about the School District's finances is: "Is the School District better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the School District as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector companies. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

These two statements report the School District's net position as a way to measure the School District's financial position. The change in net position provides the reader a tool to assist in determining whether the School District's financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors such as property tax base, student enrollment growth and facility conditions in arriving at their conclusion regarding the overall health of the School District.

**Reporting the District's Most Significant Funds**

*Fund Financial Statements*

The School District's fund financial statements provide detailed information about the most significant funds - not the School District as a whole. Some funds are required to be established by State law and by bond covenants. Other funds are established to help it control and manage money for particular purposes or to meet legal responsibilities for using certain taxes, grants and other sources of revenue. The School District's two types of funds, governmental and fiduciary, use different accounting approaches as further described in the notes to the financial statements.

*Governmental Funds*

Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources available to spend in the near future to finance the School District's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the basic financial statements.

*Fiduciary Funds*

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in the separate Statement of Fiduciary Net Position. We exclude these activities from the School District's other financial statements because the assets cannot be utilized by the School District to finance its operations.

**HARRISON COMMUNITY SCHOOLS**  
Management's Discussion and Analysis  
For the Year Ended June 30, 2018

**District-wide Financial Analysis**

The statement of net position provides the perspective of the School District as a whole. Exhibit A provides a summary of the School District's net position as of June 30, 2018 and 2017:

<b>Exhibit A</b>	<u>Governmental Activities</u>	
	<u>2018</u>	<u>Nonrestated 2017</u>
<b>Assets</b>		
Current and other assets	\$ 17,476,354	\$ 5,315,574
Capital assets - net of accumulated depreciation	13,826,915	10,273,644
Total assets	<u>31,303,269</u>	<u>15,589,218</u>
<b>Deferred Outflows of Resources</b>		
Related to pensions	3,913,962	2,231,556
Related to OPEB	392,359	0
Total deferred outflows of resources	<u>4,306,321</u>	<u>2,231,556</u>
<b>Liabilities</b>		
Current liabilities	6,026,488	3,917,959
Long-term liabilities	38,474,378	19,373,981
Total liabilities	<u>44,500,866</u>	<u>23,291,940</u>
<b>Deferred Inflows of Resources</b>		
Related to pensions	2,307,408	1,203,119
Related to OPEB	209,145	0
Total deferred inflows of resources	<u>2,516,553</u>	<u>1,203,119</u>
<b>Net Position</b>		
Net investment in capital assets	8,364,084	7,568,567
Restricted	730,394	603,592
Unrestricted	(20,502,307)	(14,846,444)
Total net position	<u>\$ (11,407,829)</u>	<u>\$ (6,674,285)</u>

The analysis on the previous page focuses on net position (see Exhibit A). The School District's net position was \$(11,407,829) at June 30, 2018. Investment in property and equipment, net of related debt totaling \$8,364,084, compares the original costs 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 requirements and legislation that limit the School District's ability to use that net position for day-to-day operations.

**HARRISON COMMUNITY SCHOOLS**  
**Management's Discussion and Analysis**  
For the Year Ended June 30, 2018

The \$(20,502,307) in unrestricted net position of governmental activities represents the *accumulated* results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

The School District implemented GASB Statement No. 68 in 2015. The effect of this Statement required the School District to report in the summary of net position, a liability of \$18,162,998 for 2018 and \$17,519,148 for 2017.

The School District implemented GASB Statement No. 75 in 2018. The effect of this Statement required the School District to report in the summary of net position, a liability of \$6,186,394 for 2018 and \$0 for 2017. The 2017 summary of the School District's net position was not restated to reflect this implementation.

The results of this year's operations for the School District as a whole are reported in the statement of activities. Exhibit B provides a summary of the changes in net position for the years ended June 30, 2018 and 2017.

**Exhibit B**

	Governmental Activities	
	2018	Nonrestated 2017
<b>Revenues</b>		
Program revenue:		
Charges for services	\$ 365,875	\$ 362,915
Grants and categoricals	4,717,510	4,226,153
General revenue:		
Property taxes	5,479,508	4,896,453
State aid	6,964,597	6,674,268
Other	151,005	37,715
Total revenues	17,678,495	16,197,504
<b>Function/Program Expenses</b>		
Instruction	8,989,804	7,209,717
Support services	4,560,209	4,453,998
Community services	90,945	68,416
Food services	1,132,806	1,019,575
Athletics	189,821	186,852
Adjustments to prior period revenue accounts	0	1,456
Interest	608,515	376,612
Depreciation (unallocated)	425,410	434,838
Issuance costs	156,646	0
Total expenses	16,154,156	13,751,464
<b>Change in Net Position</b>	\$ 1,524,339	\$ 2,446,040

**HARRISON COMMUNITY SCHOOLS**  
**Management's Discussion and Analysis**  
For the Year Ended June 30, 2018

The School District implemented GASB Statement No. 75 for 2018. The effect of this Statement required the School District to report in the summary of the change in net position, an expense of \$208,765. The 2017 summary of the School District's change in net position was not restated to reflect this implementation.

As reported in the statement of activities, the cost of all of our governmental activities this year was \$16,154,156. Certain activities were partially funded from those who benefited from the programs, \$365,875, or by the other governments and organizations that subsidized certain programs with grants and categoricals of \$4,717,510. We paid for the remaining "public benefit" portion of our governmental activities with \$5,479,508 in taxes, \$6,964,597 in State aid and with our other revenues, such as interest and entitlements.

The School District had an increase in net position of \$1,524,339. The School Board and administration continued a focused effort to maintain a balanced budget. State revenue increased for the year due to both an increase in per pupil founding as well as increased student enrollment over originally budgeted amounts. Federal revenues were again higher than projected. Streamlined spending was another key focus this fiscal year district wide. Staffing levels were generally maintained from the prior year with a few additions to maintain lower class sizes at the elementary buildings and retiring teachers were able to be replaces with newly certified staff at beginning step levels. The current teacher contract maintained wage rates at prior contract wages but allowed for steps and enrollment-based stipends. District supply budgets were maintained at prior year levels. Costly repairs to facilities such as roofing and boilers were done at the secondary buildings due to the new bond/construction to upgrade facilities/parking lots which began in the spring of 2018. The combined effect of these changes led to the increase in net position. The increase in net position differs from the change in fund balance and a reconciliation appears in the financial statements.

**The School District's Funds**

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 other provide to it and may provide more insight into the School District's overall financial health.

The School District's governmental funds reported a combined fund balance of \$12,755,966, which is above last year's total of \$2,638,189. The schedule below indicates the fund balance and the total change in fund balances as of June 30, 2018 and 2017.

	Fund Balance <u>6/30/2018</u>	Fund Balance <u>6/30/2017</u>	Increase (Decrease)
General	\$ 2,380,708	\$ 2,014,023	\$ 366,685
2017 Capital Projects	4,640,737	0	4,640,737
2018 Capital Projects	4,908,027	0	4,908,027
Special Revenue	423,563	491,804	(68,241)
Debt Service	402,931	132,362	270,569
	<u>\$ 12,755,966</u>	<u>\$ 2,638,189</u>	<u>\$ 10,117,777</u>

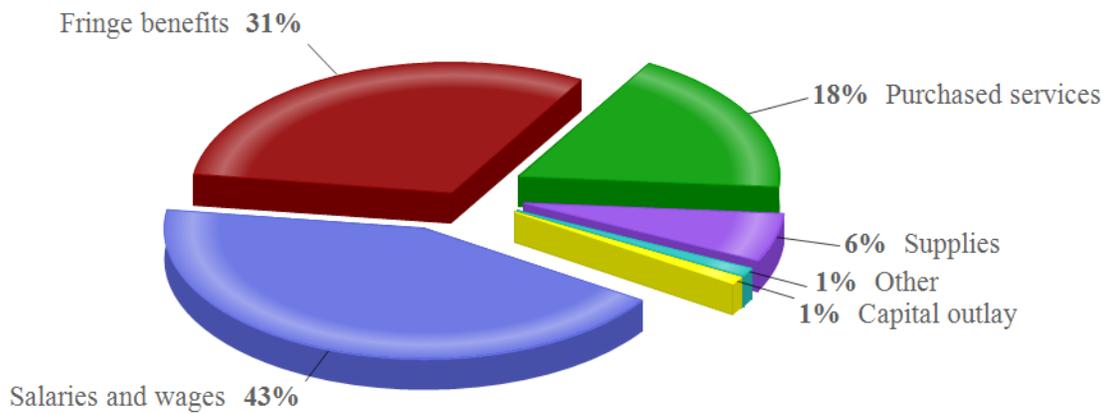
HARRISON COMMUNITY SCHOOLS  
Management's Discussion and Analysis  
For the Year Ended June 30, 2018

- Our General Fund increase is mainly attributable to higher state revenues and no facility repairs to roofs, boilers and parking lots at the secondary level. State revenue increased due to the stabilization of student enrollment with higher than expected budgeted enrollment for the year and an increase in per pupil foundation allowance. Program costs were carefully considered and staffing levels maintained.
- Our Special Revenue Fund increased mainly due to a additional revenue provided by the catering activities of the food service department and food service management company in the local area.
- Our Debt Service Funds decreased due to taxes collected being close to debt payments due.
- Our Capital Projects Funds increased due to the passage of the Construction Bond of \$26.7 million to upgrade the high school, middle school and athletic complex.

**HARRISON COMMUNITY SCHOOLS**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2018**

As the graph below illustrates, the largest portions of General Fund expenditures are for salaries and fringe benefits. The School District by nature is a labor intensive organization.

**Expenditures**



Expenditures by Objects	<u>2018</u>	<u>2017</u>
Salaries and wages	\$ 6,141,804	\$ 5,933,637
Fringe benefits	4,470,875	4,102,551
Purchased services	2,649,890	2,506,477
Supplies	831,425	719,643
Capital outlay	95,446	84,544
Other	80,396	101,899
Total	<u>\$ 14,269,836</u>	<u>\$ 13,448,751</u>

Expenditures have increased by \$821,085 from the prior year mainly due to higher than originally projected federal revenue to be spent on added needs instruction, including additional teaching staff for intervention, the addition of a district social worker and middle school dean of students.. Additionally, another first grade and third grade teacher were hired to accommodate the larger than projected amount of students and keep lower elementary class sizes low. There were also additional special education paraprofessionals hired as required by new students. There were no major purchases of capital equipment in 2017-18 other than the extensive renovation to the high school, middle school and athletic complex.

**HARRISON COMMUNITY SCHOOLS**  
**Management's Discussion and Analysis**  
For the Year Ended June 30, 2018

**General Fund Budgetary Highlights**

Over the course of the year, the School District revises its budget to reflect changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements. Changes to the General Fund original budget were as follows:

- Budgeted revenues were increased from the original budget by \$1,049,374 due to increased property tax revenue, increased per pupil foundation revenues and higher than budgeted student enrollment, large increase in federal revenues due to higher than projected estimated revenues and significant prior year carryover and higher than anticipated athletic revenues and income from miscellaneous sources.
- Budgeted expenditures increased from the original budget by \$841,620 due to increased expected costs for basic programs, pupil, instructional staff and general administrative costs and the addition of federal grant carryover funding.
- Actual revenues were under the final budgeted revenues by \$355,091 due to adjustments for retirement cost offset revenues and less than budgeted actual costs/reimbursements from federal grant expenditures.
- Actual expenditures were under the final budgeted expenditures by \$759,996 due unspent grant allocations, the late in the year hiring of the new social worker and middle school dean of students, delayed maintenance projects until later in the summer, a along with streamlined spending in all areas to preserve equity.

**Capital Assets**

At June 30, 2018, the School District had \$13,826,915 invested in a broad range of capital assets, including land, buildings, furniture and equipment.

	<u>2018</u>	<u>2017</u>
Land	\$ 239,002	\$ 239,002
Construction in process	3,800,731	0
Buildings and improvements	19,577,223	19,577,223
Buses and other vehicles	140,705	140,705
Furniture and equipment	<u>832,526</u>	<u>654,576</u>
Total capital assets	24,590,187	20,611,506
Less accumulated depreciation	<u>10,763,272</u>	<u>10,337,862</u>
Net capital assets	<u>\$ 13,826,915</u>	<u>\$ 10,273,644</u>

**HARRISON COMMUNITY SCHOOLS**  
**Management's Discussion and Analysis**  
For the Year Ended June 30, 2018

This year's additions of \$3,978,681 were mainly due to the upgrades to the district and facilities with the bond project. The high school was completely renovated inside from an open-concept building to individual classroom settings. New roofing, boilers, electrical, furniture, fire alarm system, theater style seating auditorium were the main upgrades. The middle school also received many upgrades to the electrical, roofing, and boiler. Secure entrances were added to both high school and middle school entrances. Parking lots were refurbished and upgrades made to the athletic complex.

The community supported a \$26.7 million bond initiative for District renovation and repairs to update facilities district wide. The bond project will be done in two series. The first project will began in March 2018 with renovation and updates to the high school/middle school buildings, parking lots and athletic facility. The second project will begin in 2021 with the renovation of both elementary buildings and addition to Larson Elementary.

We anticipate that the next year's capital additions will be minimal compared to the 2017-18 fiscal year. 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 \$14,165,000 in bonds outstanding versus \$3,100,000 in the previous year - an increase of 357%.

	<u>2018</u>	<u>2017</u>
2005 Energy Bonds	\$ 0	\$ 220,000
2009 General Obligation	1,880,000	2,880,000
2017 General Obligation	7,690,000	0
2018 General Obligation	4,595,000	0
	<u>\$ 14,165,000</u>	<u>\$ 3,100,000</u>

**Factors Expected to have an Effect on Future Operations**

Our elected Board and administration consider many factors when setting the School District's 2019 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 2019 fiscal year budget was adopted in June 2018, based on actual students enrolled in February 2016 and an estimate of students that will be enrolled in September 2018. Under State law, the School District cannot access additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2018-2019 school year, we anticipate that the fall student count will be close to the estimates used in creating the 2019 fiscal year budget. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget if actual district resources are not sufficient to fund original appropriations.

**HARRISON COMMUNITY SCHOOLS**  
Management's Discussion and Analysis  
For the Year Ended June 30, 2018

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 revenues to fund its appropriation to school districts. The State periodically holds a revenue-estimating conference to estimate revenues. Based on the results of the most recent conference, the State estimates funds are sufficient to fund the appropriation until 2018-2019.

With the approval of the new bond for improvement of district facilities, the new debt tillage will be set a 4.25 mills to cover the bond payments.

**Requests for Information**

This financial report is designed to provide a general overview of the School District's finances for all those with an interest in the School District. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Office of the Superintendent  
Harrison Community School District  
224 West Main Street  
Harrison, MI 48625

HARRISON COMMUNITY SCHOOLS  
Statement of Net Position  
June 30, 2018

	Governmental Activities
<u>Assets</u>	
Cash and investments	\$ 14,749,021
Due from other governmental units	2,623,341
Inventories	17,392
Prepaid expenses	86,600
Capital assets less accumulated depreciation \$10,763,272	13,826,915
Total assets	31,303,269
<u>Deferred Outflows of Resources</u>	
Related to pensions	3,913,962
Related to OPEB	392,359
Total deferred outflows of resources	4,306,321
<u>Liabilities</u>	
Accounts payable	2,106,012
Unearned revenue	253,296
Accrued payroll and other liabilities	841,036
State aid anticipation note payable	1,520,044
Accrued interest payable	96,100
Long-term liabilities:	
Due within one year	1,210,000
Due in more than one year	14,124,986
Net pension liability	18,162,998
Net OPEB liability	6,186,394
Total liabilities	44,500,866
<u>Deferred Inflows of Resources</u>	
Related to pensions	2,307,408
Related to OPEB	209,145
Total deferred inflows of resources	2,516,553
<u>Net Position</u>	
Net investment in capital assets	8,364,084
Restricted for debt service	306,831
Restricted for food service	423,563
Unrestricted	(20,502,307)
Total net position	\$ (11,407,829)

See accompanying notes to financial statements.

HARRISON COMMUNITY SCHOOLS  
Statement of Activities  
For the Year Ended June 30, 2018

		Program Revenues		Governmental Activities
Expenses	Charges for Services	Operating Grants/ Contributions	Net (Expense) Revenue and Changes in Net Position	
<u>Functions/Programs</u>				
Primary government -				
Governmental activities:				
Instruction	\$ 8,989,804	\$ 96,340	\$ 3,667,541	\$ (5,225,923)
Support services	4,560,209	7,093	104,221	(4,448,895)
Community services	90,945	0	0	(90,945)
Food services	1,132,806	198,515	945,748	11,457
Athletics	189,821	63,927	0	(125,894)
Interest	608,515	0	0	(608,515)
Depreciation (unallocated)	425,410	0	0	(425,410)
Issuance costs	156,646	0	0	(156,646)
	<u>\$ 16,154,156</u>	<u>\$ 365,875</u>	<u>\$ 4,717,510</u>	<u>(11,070,771)</u>
Total governmental activities				
General revenues:				
Taxes:				
Property taxes, levied for general purposes				3,769,075
Property taxes, levied for debt services				1,710,433
State aid				6,964,597
Interest and investment earnings				115,384
Other				35,621
				<u>12,595,110</u>
Total general revenues				
Change in net position				1,524,339
Net position - beginning of year, as restated				<u>(12,932,168)</u>
Net position - end of year				<u><u>\$ (11,407,829)</u></u>

See accompanying notes to financial statements.

HARRISON COMMUNITY SCHOOLS  
Governmental Funds  
Balance Sheet  
June 30, 2018

	General	2017 Capital Projects	2018 Capital Projects	Other Nonmajor Governmental Funds	Total
<u>Assets</u>					
Cash and investments	\$ 2,642,514	\$ 6,171,754	\$ 4,954,990	\$ 979,763	\$14,749,021
Due from other funds	31,515	46,963	0	2,778	81,256
Due from other governmental units	2,602,639	0	0	20,702	2,623,341
Inventories	0	0	0	17,392	17,392
Prepaid expenditures	11,600	0	0	75,000	86,600
 Total assets	<u>\$ 5,288,268</u>	<u>\$ 6,218,717</u>	<u>\$ 4,954,990</u>	<u>\$ 1,095,635</u>	<u>\$17,557,610</u>
<u>Liabilities and Fund Balance</u>					
<u>Liabilities</u>					
Accounts payable	\$ 291,447	\$ 1,567,939	\$ 0	\$ 246,626	\$ 2,106,012
Due to other funds	1,737	10,041	46,963	22,515	81,256
Unearned revenue	253,296	0	0	0	253,296
Accrued payroll and other liabilities	841,036	0	0	0	841,036
State aid anticipation note payable	1,520,044	0	0	0	1,520,044
 Total liabilities	<u>2,907,560</u>	<u>1,577,980</u>	<u>46,963</u>	<u>269,141</u>	<u>4,801,644</u>
<u>Fund Balance</u>					
Nonspendable - inventory	0	0	0	17,392	17,392
Nonspendable - prepaid expenditures	11,600	0	0	75,000	86,600
Restricted for debt service	0	0	0	402,931	402,931
Restricted for capital projects	0	4,640,737	4,908,027	0	9,548,764
Restricted for food service	0	0	0	331,171	331,171
Unassigned	2,369,108	0	0	0	2,369,108
 Total fund balance	<u>2,380,708</u>	<u>4,640,737</u>	<u>4,908,027</u>	<u>826,494</u>	<u>12,755,966</u>
 Total liabilities and fund balance	<u>\$ 5,288,268</u>	<u>\$ 6,218,717</u>	<u>\$ 4,954,990</u>	<u>\$ 1,095,635</u>	<u>\$17,557,610</u>

See accompanying notes to financial statements.

**HARRISON COMMUNITY SCHOOLS**  
**Reconciliation of Balance Sheet of Governmental Funds**  
**to the Statement of Net Position**  
June 30, 2018

Total fund balance - governmental funds	\$ 12,755,966
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>	
<p>Capital assets used in governmental activities are not financial resources and are not reported in the funds</p>	
Cost of the capital assets	24,590,187
Accumulated depreciation	(10,763,272)
<p>Deferred outflows used in governmental activities are not financial resources and therefore are not reported in governmental funds:</p>	
Related to pensions	3,913,962
Related to OPEB	392,359
<p>Long-term liabilities are not due and payable in the current period and are not reported in the funds:</p>	
Bonds payable	(14,165,000)
Compensated absences	(323,391)
Bond discount, net of amortization	179,530
Net pension liability	(18,162,998)
Net OPEB liability	(6,186,394)
Bond premium	(1,026,125)
Accrued interest payable is included as a liability in governmental activities	(96,100)
<p>Deferred inflows used in governmental activities are not recognized as current resources and therefore are not reported in governmental funds:</p>	
Related to pensions	(2,307,408)
Related to OPEB	(209,145)
Total net position - governmental activities	\$ (11,407,829)

See accompanying notes to financial statements.

HARRISON COMMUNITY SCHOOLS  
Governmental Funds  
Statement of Revenues, Expenditures and Changes in Fund Balance  
For the Year Ended June 30, 2018

	General	2017 Capital Projects	2018 Capital Projects	Other Nonmajor Governmental Funds	Total
<u>Revenues</u>					
Local sources					
Property taxes	\$ 3,769,075	\$ 0	\$ 0	\$ 1,710,433	\$ 5,479,508
Other local sources	123,045	84,542	29,185	200,172	436,944
State sources	8,907,633	0	0	31,406	8,939,039
Federal sources	1,498,300	0	0	914,342	2,412,642
Interdistrict and other sources	549,823	0	0	0	549,823
Total revenues	<u>14,847,876</u>	<u>84,542</u>	<u>29,185</u>	<u>2,856,353</u>	<u>17,817,956</u>
<u>Expenditures</u>					
Instruction	9,235,931	0	0	0	9,235,931
Support services	4,753,139	0	0	0	4,753,139
Community services	90,945	0	0	0	90,945
Athletics	189,821	0	0	0	189,821
Food services	0	0	0	1,196,547	1,196,547
Capital outlay	0	3,850,679	0	0	3,850,679
Debt service:					
Principal	0	0	0	1,420,000	1,420,000
Interest and other	0	0	0	387,185	387,185
Total expenditures	<u>14,269,836</u>	<u>3,850,679</u>	<u>0</u>	<u>3,003,732</u>	<u>21,124,247</u>
Excess (deficiency) of revenues over expenditures	<u>578,040</u>	<u>(3,766,137)</u>	<u>29,185</u>	<u>(147,379)</u>	<u>(3,306,291)</u>
<u>Other Financing Sources (Uses)</u>					
Operating transfer in	16,895	0	0	229,675	246,570
Operating transfer out	(228,250)	0	0	(18,320)	(246,570)
Proceeds from bond issuance	0	7,890,000	4,456,648	138,352	12,485,000
Proceeds from bond premium	0	608,177	487,537	0	1,095,714
Bond issuance costs	0	(91,303)	(65,343)	0	(156,646)
Total other financing sources (uses)	<u>(211,355)</u>	<u>8,406,874</u>	<u>4,878,842</u>	<u>349,707</u>	<u>13,424,068</u>
Net change in fund balance	366,685	4,640,737	4,908,027	202,328	10,117,777
Fund balance - beginning of year	<u>2,014,023</u>	<u>0</u>	<u>0</u>	<u>624,166</u>	<u>2,638,189</u>
Fund balance - end of year	<u>\$ 2,380,708</u>	<u>\$ 4,640,737</u>	<u>\$ 4,908,027</u>	<u>\$ 826,494</u>	<u>\$12,755,966</u>

See accompanying notes to financial statements.

**HARRISON COMMUNITY SCHOOLS**  
**Reconciliation of the Statement of Revenues, Expenditures and**  
**Changes in Fund Balance of Governmental Funds to the Statement of Activities**  
**For the Year Ended June 30, 2018**

Net change in fund balance - total governmental funds	\$ 10,117,777
<p>Amounts reported for governmental activities in the statements of activities are different because:</p>	
<p style="padding-left: 20px;">Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation</p>	
Depreciation expense	(425,410)
Capital outlay	3,978,681
<p>The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of principle of long-term debt consumes the current financial resources of governmental funds. Neither transactions, however, has any effect of premiums, discounts, and similar items when debt is first issued, where as these amounts are deferred and amortized in the statement of activities. The effect of these differences is the treatment of long-term debt and related items as follows</p>	
Amortization of bond discount	(215,393)
Amortization of bond premium	69,589
Proceeds from issuance of debt	(12,485,000)
Premium on issuance	(1,095,714)
Repayment of bonds	1,420,000
<p>Decreases in compensated absences are reported as a reduction in expenditures when financial resources are used in the governmental fund in accordance with GASB Interpretation No. 6</p>	
	46,365
<p>Interest expense is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid</p>	
	(75,526)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds</p>	
Pension related items	(65,733)
OPEB related items	254,703
	254,703
Change in net position of governmental activities	\$ 1,524,339

See accompanying notes to financial statements.

HARRISON COMMUNITY SCHOOLS  
Fiduciary Funds  
Statement of Fiduciary Net Position  
June 30, 2018

	<u>Agency Funds</u>
<u>Assets</u>	
Cash and investments	\$ <u>181,802</u>
<u>Liabilities</u>	
Due to student groups	\$ <u>181,802</u>

See accompanying notes to financial statements.

**HARRISON COMMUNITY SCHOOLS**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2018**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of Harrison Community Schools (School District) conform to U.S. generally accepted accounting principles (GAAP) as applicable to governmental units. 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 Board of Education. 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 financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate component units of the School District. The School District has no component units.

**District-wide and Fund Financial Statements**

The district-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. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's government-wide activities are considered governmental activities.

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

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

HARRISON COMMUNITY SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2018

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

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

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

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted State aid.

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

Property taxes, unrestricted state aid, intergovernmental grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting.

HARRISON COMMUNITY SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2018

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The School District reports the following major governmental funds:

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

**2017 Capital Projects Fund** - The Capital Projects Fund is used to account for the recording of transactions relative to the improvement of the facilities of the School District.

**2018 Capital Projects Fund** - The Capital Projects Fund is used to account for the recording of transactions relative to the improvement of the facilities of the School District.

**Assets, Liabilities and Net Position or Equity**

**Cash and Investments** - Cash and cash equivalents 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.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

**Inventories and Prepaid Items** - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and is recorded as prepaid items in both district-wide and fund financial statements.

**Capital Assets** - Capital assets, which include land, buildings, equipment and vehicles, are reported in the applicable governmental activities column in the district-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and any asset susceptible to theft. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District does not have infrastructure-type assets.

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

Buildings and improvements	20-50 years
Buses and other vehicles	8 years
Furniture and equipment	5-20 years

HARRISON COMMUNITY SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2018

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

**Long-term Obligations** - In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position.

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

**Fund Equity** - The fund balance classifications are reported on the extent to which a government is bound to observe constraints imposed on the use of the resources in governmental funds. The fund balances are classified as nonspendable, restricted, committed, assigned and unassigned.

Nonspendable fund balance represents amounts that are not in a spendable form. The School District's nonspendable fund balance represents inventories and prepaid expenditures. In the fund financial statements, governmental funds report restrictions on fund balances for amounts that are legally restricted by outside parties for a specific purpose. Committed fund balance represents funds formally set aside by the School District for a particular purpose. The use of committed funds would be approved by the Board of Education through the budget process or official board action.

Assigned fund balance would represent tentative management plans that are subject to change which at the present time the School District does not have any assigned fund balance. The School District's intent would be to spend uncommitted/unassigned funds prior to the use of committed funds. When both restricted and unrestricted resources are available for use, it is the School District's policy to use restricted resources first, then unrestricted resources as they are needed.

HARRISON COMMUNITY SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2018

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Deferred Outflows and Inflows of Resources**

**Deferred outflows** - In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. For district-wide financial statements, the School District reports deferred outflows of resources related to pensions and other postemployment benefits. This amount is the result of a difference between what the plan expected to earn from plan investments and what is actually earned. This amount will be amortized over the next four years and included in pension and other postemployment benefits expense. Changes in assumptions relating to the net pension and other postemployment benefits liability are deferred and amortized over the expected remaining service lives of the employees and retirees in the plan. The School District also reported deferred outflows of resources for pension and other postemployment benefits contributions made after the measurement date. This amount will reduce the net pension and other postemployment benefits liability in the following year.

**Deferred Inflows** - In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. For district-wide financial statements, the School District reports deferred inflows of resources related to pensions and other postemployment benefits. This amount is the result of a difference between what the plan expected to earn from the plan investments and what the plan actually earned. This amount will be amortized over the next four years and included in pension and other postemployment benefits expense. Changes in assumptions relating to the net pension liability are deferred and amortized over the expected remaining service lives of the employees and retirees in the plan. Deferred inflows of resources also includes revenue received relating to Section 147c state aid deferred to offset the deferred outflows related to Section 147c pension contributions subsequent to the measurement period.

**Use of Estimates** - The process of preparing the basic financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**Property taxes** - For the taxpayers of Harrison Community Schools, properties are assessed as of December 31 and the related property taxes are levied and become a lien on July 1. The final collection date is February 28, after which uncollected taxes are added to the County delinquent tax rolls.

**HARRISON COMMUNITY SCHOOLS**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2018**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**State Aid** - For the fiscal year ended June 30, 2018, the State of Michigan adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2018, the foundation allowance was based on the average pupil membership counts taken in February of 2017 and September of 2017.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period (currently the fiscal year) and is funded through payments from October 2017 - August 2018. The local revenue is recognized as outlined in Note 1. Amounts receivable from the State of Michigan at June 30, 2018 relating to state aid is \$1,620,448.

The School District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

**Events Occurring After Reporting Date**

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through the date of the accompanying independent auditor's report, which is the date the financial statements were available to be issued.

**NOTE 2 - BUDGETS**

The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the state. The law requires appropriation acts to be adopted for General and Special Revenue Funds of school districts prior to the expenditure of monies in a fiscal year.

**HARRISON COMMUNITY SCHOOLS**  
**Notes to Financial Statements**  
For the Year Ended June 30, 2018

**NOTE 2 - BUDGETS (CONTINUED)**

Harrison Community Schools follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The School District's Superintendent submits to the Board of Education a proposed budget prior to July 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Budgeted amounts are as originally adopted, or as amended by the Board of Education throughout the year. Budgets are adopted to the functional level.
4. Appropriations lapse at year-end and therefore cancel all encumbrances. These appropriations are re-established at the beginning of the following year.

A comparison of actual results of operations to the budgeted amounts (at the level of control adopted by the Board of Education) for the General Fund is presented as Required Supplemental Information.

Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the General Fund are noted in the required supplementary information section.

**NOTE 3 - CASH AND INVESTMENTS**

Some 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 an office in Michigan; the School District is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not 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.

At year-end, the School District's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash and Investments	\$ 14,749,021	\$ 181,802	\$ 14,930,823

HARRISON COMMUNITY SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2018

**NOTE 3 - CASH AND INVESTMENTS (CONTINUED)**

The breakdown between deposits and investments for the School District is as follows:

Deposits (checking and savings accounts, certificates of deposit)	\$ 3,812,055
Investment in interlocal agreement investment pools (i.e. MILAF) with a weighted average maturity of 1 day	11,118,492
Petty Cash and cash on hand	276
Total	\$ 14,930,823

The School District voluntarily invests certain excess funds in external pooled investment funds which included money market funds. Two of the pooled investment funds utilized by the School District are the Michigan Investment Liquid Assets Fund Cash Mgmt Class and Max Class (MILAF). These are external pooled investment funds of "qualified" investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports as of June 30, 2018, the fair value of the School District's investments is the same as the value of the pool shares.

MILAF Cash Mgmt Class and Max Class funds are considered external investment pools as defined by the GASB and as such are recorded at amortized cost which approximate fair value. The MILAF (Max Class) fund requires notification of redemptions prior to 14 days to avoid penalties. These funds are not subject to the fair value disclosures.

Interest Rate Risk

In accordance with its investment policy, the School District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations.

Credit Risk

State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2018, the School District's investment in the investment pool was rated AAA by Standard & Poor's.

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2018, \$3,815,214 of the School District's bank balance of \$4,065,214 was exposed to custodial credit risk because it was uninsured and uncollateralized.

The balance of the sweep accounts was used to purchase short-term federal debt securities.

**HARRISON COMMUNITY SCHOOLS**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2018**

**NOTE 3 - CASH AND INVESTMENTS (CONTINUED)**

Fair Value Measurement

The School District is required to disclose amounts within a framework established for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1: Quoted prices in active markets for identical securities.

Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include prices for similar securities, interest rates, prepayment speeds, credit risk and others.

Level 3: Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant, unobservable inputs may be used. Unobservable inputs reflect the School District's own assumptions about the factors market participants would use in pricing an investment and would be based on the best information available.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The School District does not have any investments subject to the fair value measurement.

HARRISON COMMUNITY SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2018

**NOTE 4 - CAPITAL ASSETS**

A summary of changes in governmental capital assets follows:

	Balance June 30, 2017	Additions	Disposals and Adjustments	Balance June 30, 2018
Assets not being depreciated:				
Land	\$ 239,002	\$ 0	\$ 0	\$ 239,002
Construction in process	0	3,800,731	0	3,800,731
Subtotal	<u>239,002</u>	<u>3,800,731</u>	<u>0</u>	<u>4,039,733</u>
Capital assets being depreciated:				
Buildings and improvements	19,577,223	0	0	19,577,223
Buses and other vehicles	140,705	0	0	140,705
Furniture and equipment	654,576	177,950	0	832,526
Subtotal	<u>20,372,504</u>	<u>177,950</u>	<u>0</u>	<u>20,550,454</u>
Accumulated depreciation:				
Buildings and improvements	9,800,488	377,131	0	10,177,619
Buses and other vehicles	64,107	19,342	0	83,449
Furniture and equipment	473,267	28,937	0	502,204
Subtotal	<u>10,337,862</u>	<u>425,410</u>	<u>0</u>	<u>10,763,272</u>
Net capital assets being depreciated	<u>10,034,642</u>	<u>(247,460)</u>	<u>0</u>	<u>9,787,182</u>
Net capital assets	<u>\$ 10,273,644</u>	<u>\$ 3,553,271</u>	<u>\$ 0</u>	<u>\$ 13,826,915</u>

**HARRISON COMMUNITY SCHOOLS**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2018**

**NOTE 4 - CAPITAL ASSETS (CONTINUED)**

Depreciation expense for fiscal year ended June 30, 2018 was \$425,410. The School District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

**NOTE 5 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

A summary of interfund receivable and payable balances at June 30, 2018 are as follows:

		Payables				Total
		General	Food Service	2017 Capital Projects	2018 Capital Projects	
Receivables	General	\$ 0	\$ 22,515	\$ 9,000	\$ 0	\$ 31,515
	Food Service	1,737	0	0	0	1,737
	2017 Capital Projects	0	0	0	46,963	46,963
	2018 Debt	0	0	1,041	0	1,041
			<u>\$ 1,737</u>	<u>\$ 22,515</u>	<u>\$ 10,041</u>	<u>\$ 46,963</u>

A summary of interfund transfers made during the year ended June 30, 2018 are as follows:

		Transfers Out		
		General	Food Service	Total
Transfers In	General	\$ 0	\$ 18,320	\$ 18,320
	Energy bond	228,250	0	228,250
		<u>\$ 228,250</u>	<u>\$ 18,320</u>	<u>\$ 246,570</u>

Interfund transfers are used to fund the debt payment for Energy Bond debt.

These interfund receivable and payable balances resulted from the time lag between the dates that (1) interfund goods and service are provided or reimbursable expenditures occur; (2) transactions are recorded in the accounting system; and (3) payments between funds are made. .

HARRISON COMMUNITY SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2018

**NOTE 6 - RECEIVABLES**

Receivables at June 30, 2018 consist of accounts (fees), intergovernmental grants and interest.

A summary of the intergovernmental receivables (due from other governmental units) follows:

State aid and grants	\$	1,620,448
Federal grants		652,632
Other		350,261
		\$ 2,623,341

**NOTE 7 - UNEARNED REVENUE**

Governmental funds report unearned revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also reflect unearned revenue in connection with resources that have been received but not yet earned. At the end of the current fiscal year, grant and categorical aid payments received prior to meeting all eligibility requirements amounted to \$253,296.

**NOTE 8 - SHORT-TERM DEBT ACTIVITY**

The School District issues state aid anticipation notes in advance of State of Michigan state aid payments, depositing the proceeds in its General Fund. These notes are necessary because the School District's cash flow obligation to operating expenses precede the collection of state aid.

	<u>Beginning Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Ending Balance</u>
State Aid Anticipation Note due August 21, 2017, accruing interest at .87%	\$ 1,412,146	\$ 0	\$ 1,412,146	\$ 0
State Aid Anticipation Note due August 20, 2018, accruing interest at 1.34%	<u>0</u>	<u>1,520,044</u>	<u>0</u>	<u>1,520,044</u>
	<u>\$ 1,412,146</u>	<u>\$ 1,520,044</u>	<u>\$ 1,412,146</u>	<u>\$ 1,520,044</u>

**HARRISON COMMUNITY SCHOOLS**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2018**

**NOTE 9 - LONG-TERM DEBT**

The following is a summary of governmental long-term obligations for the School District for the year ended June 30, 2018:

	<u>Balance</u> <u>June 30, 2017</u>	<u>Additions</u>	<u>Retirements</u> <u>and Payments</u>	<u>Balance</u> <u>June 30, 2018</u>	<u>Amount Due</u> <u>Within One</u> <u>Year</u>
Bonds	\$ 3,100,000	\$ 12,485,000	\$ 1,420,000	\$ 14,165,000	\$ 1,210,000
Compensated absences	369,756	0	46,365	323,391	0
Bond discount	(394,923)	0	(215,393)	(179,530)	0
Bond premium	<u>0</u>	<u>1,095,714</u>	<u>69,589</u>	<u>1,026,125</u>	<u>0</u>
Total	<u>\$ 3,074,833</u>	<u>\$ 13,580,714</u>	<u>\$ 1,320,561</u>	<u>\$ 15,334,986</u>	<u>\$ 1,210,000</u>

Bonds payable at June 30, 2018 is comprised of the following issues:

\$9,295,000 General Obligation Bonds due in annual installments of \$100,000 to \$940,000 through May 1, 2020; interest at 3.0% to 4.0%	\$ 1,880,000
\$7,890,000 General Obligation Bonds due in annual installments of \$307,600 to \$946,400 through May 1, 2038; interest at 3.0% to 4.0%	7,690,000
\$4,595,000 General Obligation Bonds due in annual installments of \$463,800 to \$260,000 through May 1, 2029; interest at 4.0% to 5.0%	<u>4,595,000</u>
	<u>\$ 14,165,000</u>

Under the terms of the present contracts between the Board of Education of Harrison Community Schools and the various employee groups, including teachers, administration, custodians, bus drivers and extra support personnel, the School District is contingently liable for compensated absences (sick pay). The amount of compensated absences, calculated based on number of years of service, amounted to \$323,391 at June 30, 2018.

**HARRISON COMMUNITY SCHOOLS**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2018**

**NOTE 9 - LONG-TERM DEBT (CONTINUED)**

The annual requirements to amortize bonds outstanding as of June 30, 2018, including interest payments are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 1,210,000	\$ 576,600	\$ 1,786,600
2020	1,265,000	528,200	1,793,200
2021	500,000	477,600	977,600
2022	500,000	457,600	957,600
2023	500,000	437,600	937,600
2024 - 2028	2,605,000	1,853,000	4,458,000
2029 - 2033	3,395,000	1,256,000	4,651,000
2034 - 2038	4,190,000	517,000	4,707,000
	<u>\$ 14,165,000</u>	<u>\$ 6,103,600</u>	<u>\$ 20,268,600</u>

**NOTE 10 - 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 risk pool for claims relating to workers' compensation, general liability, and property/casualty claims. Settled claims relating to the commercial insurance did not exceed the amount of insurance coverage in any of the past three fiscal years.

The SET-SEG 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 11 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS**

**Plan Description**

The Michigan Public School Employees' Retirement System (MPSERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. MPSERS issues a publicly available Comprehensive Annual Financial Report that can be obtained at <http://michigan.gov/mpsers-cafr>.

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

HARRISON COMMUNITY SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2018

**NOTE 11 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS**  
**(CONTINUED)**

**Benefits Provided - Overall**

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

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

**Benefits Provided - Pension**

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

Prior to Pension reform of 2010 there were two plans commonly referred to as Basic and the Member Investment Plan (MIP). Basic Plan member's contributions range from 0% - 4%. On January 1, 1987, the Member Investment Plan (MIP) was enacted. MIP members enrolled prior to January 1, 1990, contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990, or later including Pension Plus members, contribute at various graduated permanently fixed contribution rates from 3.0% - 7.0%.

**Pension Reform 2010**

On May 19, 2010, the Governor signed Public Act 75 of 2010 into law. As a result, any member of the Michigan Public School Employees' Retirement System (MPSERS) who became a member of MPSERS after June 30, 2010 is a Pension Plus member. Pension Plus is a hybrid plan that contains a pension component with an employee contribution (graded, up to 6.4% of salary) and a flexible and transferable defined contribution (DC) tax-deferred investment account that earns an employer match of 50% (up to 1% of salary) on employee contributions. Retirement benefits for Pension Plus members are determined by final average compensation and years of service. Disability and survivor benefits are available to Pension Plus members.

HARRISON COMMUNITY SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2018

**NOTE 11 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS**  
**(CONTINUED)**

**Pension Reform 2012**

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

Under the reform, members voluntarily chose to increase, maintain, or stop their contributions to the pension fund.

An amount determined by the member's election of Option 1, 2, 3, or 4 described below.

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

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

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

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

**HARRISON COMMUNITY SCHOOLS**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2018**

**NOTE 11 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS**  
**(CONTINUED)**

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

Members who did not make an election before the deadline defaulted to Option 3 as described above. Deferred or nonvested public school employees on September 3, 2012, who return to public school employment on or after September 4, 2012, will be considered as if they had elected Option 3 above. Returning members who made the retirement plan election will retain whichever option they chose.

Employees who first worked on or after September 4, 2012 choose between two retirement plans: the Pension Plus Plan and a Defined Contribution that provides a 50% employer match up to 3% of salary on employee contributions.

Final Average Compensation (FAC) - Average of highest 60 consecutive months (36 months for MIP members). FAC is calculated as of the last day worked unless the member elected option 4, in which case the FAC is calculated at the transition date.

**Pension Reform of 2017**

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

HARRISON COMMUNITY SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2018

**NOTE 11 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS**  
**(CONTINUED)**

**Benefits Provided – Other postemployment benefit (OPEB)**

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

**Retiree Healthcare Reform of 2012**

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

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

**Regular Retirement (no reduction factor for age)**

Eligibility – A Basic plan member may retire at age 55 with 30 years credited service; or age 60 with 10 years credited service. For Member Investment Plan (MIP) members, age 46 with 30 years credited service; or age 60 with 10 years credited service; or age 60 with 5 years of credited service provided member worked through 60<sup>th</sup> birthday and has credited service in each of the last 5 years. For Pension Plus Plan (PPP) members, age 60 with 10 years of credited service.

HARRISON COMMUNITY SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2018

**NOTE 11 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS**  
**(CONTINUED)**

Annual Amount – The annual pension is paid monthly for the lifetime of a retiree. The calculation of a member’s pension is determined by their pension election under PA 300 of 2012.

**Member Contributions**

Depending on the plan selected, member contributions range from 0% - 7% for pension and 0% - 3% for other postemployment benefits. Plan members electing the defined contribution plan are not required to make additional contributions.

**Employer Contributions**

Employers are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of members and retiree Other Post-Employment Benefits (OPEB). Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis.

For retirement and OPEB benefits, the unfunded (overfunded) actuarial accrued liability as of September 30, 2016 valuation will be amortized over a 22-year period for fiscal 2017.

The School District’s contributions are determined based on employee elections. There are several different benefit options included in the plan available to employees based on date of hire. Contribution rates are adjusted annually by the ORS. The range of rates is as follows:

	Pension	Other postemployment benefit
October 1, 2016 - September 30, 2017	15.27% - 19.03%	5.69% - 5.91%
October 1, 2017 - September 30, 2018	13.54% - 19.74%	7.42% - 7.67%

The School District's pension contributions for the year ended June 30, 2018 were equal to the required contribution total. Pension contributions were approximately \$1,935,000, with \$1,950,000 specifically for the Defined Benefit Plan.

The School District's OPEB contributions for the year ended June 30, 2018 were equal to the required contribution total. OPEB benefits were approximately \$500,000, with \$489,000 specifically for the Defined Benefit Plan.

HARRISON COMMUNITY SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2018

**NOTE 11 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS**  
**(CONTINUED)**

These amounts, for both pension and OPEB benefit, include contributions funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate (100% for pension and 0% for OPEB).

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

**Pension Liabilities**

At June 30, 2018, the School District reported a liability of \$18,162,998 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2016 and rolled-forward using generally accepted actuarial procedures. 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, 2017 and 2016, the School District's proportion was 0.07009 and 0.07022 percent.

*MPSERS (Plan) Net Pension Liability - As of September 30, 2017:*

MPSERS (Plan) Non-University Employers:	September 30, 2017	September 30, 2016
Total Pension Liability	\$ 73,501,296,000	\$ 67,917,445,000
Plan Fiduciary Net Position	\$ 47,011,783,000	\$ 42,968,263,000
Net Pension Liability	\$ 26,489,513,000	\$ 24,949,182,000
Proportionate share	0.07009 %	0.07022 %
Net Pension liability for the School District	\$ 18,162,998	\$ 17,519,148

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

For the year ended June 30, 2018, the School District recognized pension expense of approximately \$1,155,000.

HARRISON COMMUNITY SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2018

**NOTE 11 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS**  
**(CONTINUED)**

At June 30, 2018, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred (Inflows) of Resources</u>
Differences between expected and actual experience	\$ 157,849	\$ (89,122)
Net difference between projected and actual earnings on pension plan investments	0	(868,311)
Changes in assumptions	1,989,901	0
Changes in proportion and differences between employer contributions and proportionate share of contributions	26,507	(487,515)
Unearned revenue related to pension portion of section 147 c	0	(862,460)
Reporting Unit contributions subsequent to the measurement date	<u>1,739,705</u>	<u>0</u>
<b>Total</b>	<u>\$ 3,913,962</u>	<u>\$ (2,307,408)</u>

\$1,739,705, reported as deferred outflows of resources related to pensions resulting from School District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

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

<b>Year Ended June 30</b>	<u>Amount</u>
2019	\$ 155,925
2020	457,274
2021	158,111
2022	(42,001)
	<u>\$ 729,309</u>

HARRISON COMMUNITY SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2018

**NOTE 11 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS**  
**(CONTINUED)**

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

**OPEB Liabilities**

At June 30, 2018, the School District reported a liability of \$6,186,394 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of September 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation date of September 30, 2016 and rolled-forward using generally accepted actuarial procedures. The School District's proportion of the net OPEB liability 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, 2017 and 2016, the School District's proportion was 0.06986 and 0.06986 percent.

MPSERS (Plan) Non-University Employers:	September 30, 2017
Total OPEB Liability	\$ 14,175,547,000
Plan Fiduciary Net Position	\$ 5,177,775,000
Net OPEB Liability	\$ 8,997,772,000
Proportionate share	0.06986 %
Net OPEB liability for the School District	\$ 6,186,394

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

For the year ended June 30, 2018, the School District recognized OPEB expense of approximately \$209,000.

HARRISON COMMUNITY SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2018

**NOTE 11 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS**  
**(CONTINUED)**

At June 30, 2018, the School District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred (Inflows) of Resources</b>
Difference between expected and actual experience	\$ 0	\$ (65,867)
Net difference between projected and actual plan investment	0	(143,278)
Changes of assumption	0	0
Changes in proportion and differences between employer contributions and proportionate share of contributions	292	0
School District's contributions subsequent to the measurement date	392,067	0
<b>Total</b>	<b>\$ 392,359</b>	<b>\$ (209,145)</b>

\$392,067, reported as deferred outflows of resources related to OPEB resulting from School District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the subsequent fiscal year.

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

<b>Year Ended September 30</b>	<b>Amount</b>
2019	\$ (50,475)
2020	(50,475)
2021	(50,475)
2022	(50,475)
2023	(6,953)
	<b>\$ (208,853)</b>

**Actuarial Assumptions**

**Investment rate of return for Pension** - 7.5% a year, compounded annually net of investment and administrative expenses for the Non-Hybrid groups and 7.0% a year, compounded annually net of investment and administrative expenses for the Hybrid group (Pension Plus plan).

**HARRISON COMMUNITY SCHOOLS**  
**Notes to Financial Statements**  
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**NOTE 11 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS**  
**(CONTINUED)**

**Investment rate of return for OPEB** - 7.5% a year, compounded annually net of investment and administrative expenses

**Salary increases** - The rate of pay increase used for individual members is 3.5%.

**Inflation** - 3.0%

**Mortality assumptions** - RP2000 Combined Healthy Life Mortality table, adjusted for mortality improvements to 2025 using a projection scale BB (for men, 80% of the table rates were used and for women, 70% of the table rates were used).

**Experience study** - The annual actuarial valuation report of the System used for these statements is dated September 30, 2016. Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with September 30, 2014 valuation.

**The long-term expected rate of return on pension and other postemployment benefit plan investments** - The rate was 7.5% (7% Pension Plus Plan), and the other postemployment benefit rate was 7.5% net of investment and administrative expenses was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

**Cost of Living Pension Adjustments** – 3.0% annual non-compounded for MIP members

**Healthcare cost trend rate for other postemployment benefit** – 7.5% for year one and graded to 3.5% to year twelve.

**Additional assumptions for other postemployment benefit only – Applies to individuals hired before September 4, 2012:**

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

Survivor Coverage - 80% of male retirees and 67% of female retirees are assumed to have coverage continuing after the retiree's death

Coverage Election at Retirement - 75% of male and 60% of female future retirees are assumed to elect coverage for 1 or more dependents

HARRISON COMMUNITY SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2018

**NOTE 11 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS**  
**(CONTINUED)**

The target asset allocation at September 30, 2017 and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<b>Investment Category</b>	<b>Target Allocation*</b>	<b>Long-Term Expected Real Rate of Return*</b>
Domestic Equity Pools	28.0%	5.6%
Alternate Investment Pools	18.0%	8.7%
International Equity	16.0%	7.2%
Fixed Income Pools	10.5%	(0.1)%
Real Estate and Infrastructure Pools	10.0%	4.2%
Absolute Return Pools	15.5%	5.0%
Short Term Investment Pools	2.0%	(0.9)%
<b>Total</b>	<b>100.0%</b>	

\*Long term rate of return are net of administrative expenses and 2.3% inflation.

**Pension Discount rate** - The discount rate used to measure the total pension liability was 7.5% (7% for Pension Plus Plan). This discount rate was based on the long-term rate of return on pension plan investments of 7.5% (7.0% for the Pension Plus Plan). 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 contributions from school districts will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**OPEB Discount rate** - The discount rate of 7.5% was used to measure the total OPEB liability. This discount rate was based on the long-term expected rate of return on OPEB plan investments of 7.5%. The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that school districts contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

HARRISON COMMUNITY SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2018

**NOTE 11 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS**  
**(CONTINUED)**

**Sensitivity of the net pension liability to changes in the discount rate** - The following presents the School District's proportionate share of the net pension liability calculated using the discount rate of 7.5% (7.0% for Pension Plus Plan), as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	<b>Pension</b>		
	<b>1% Decrease (6.5-6.0%)</b>	<b>Discount Rate (7.5-7.0%)</b>	<b>1% Increase (8.5-8.0%)</b>
School District's proportionate share of the net pension liability	<u>\$23,660,345</u>	<u>\$18,162,998</u>	<u>\$13,534,582</u>

**Sensitivity of the net OPEB liability to changes in the discount rate** - The following presents the School District's proportionate share of the net OPEB liability calculated using the discount rate of 7.5%, as well as what the Reporting Unit's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	<b>Other postemployment benefit</b>		
	<b>1% Decrease (6.5%)</b>	<b>Discount Rate (7.5%)</b>	<b>1% Increase (8.5%)</b>
School District's proportionate share of the net other postemployment benefit liability	<u>\$7,246,055</u>	<u>\$6,186,394</u>	<u>\$5,287,073</u>

HARRISON COMMUNITY SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2018

**NOTE 11 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS**  
**(CONTINUED)**

**Sensitivity to the net OPEB liability to changes in the healthcare cost trend rates** - The following presents the School District's proportionate share of the net other postemployment benefit liability calculated using the healthcare cost trend rate of 7.5% (decreasing to 3.5%), as well as what the School District's proportionate share of the net other postemployment benefit liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	<b>Other postemployment benefit</b>		
<b>1% Decrease (6.5% decreasing to 2.5%)</b>	<b>Healthcare cost trend rates (7.5% decreasing to 3.5%)</b>	<b>1% Increase (8.5% decreasing to 4.5%)</b>	
School District's proportionate share of the net OPEB liability	<u>\$5,239,044</u>	<u>\$6,186,394</u>	<u>\$7,262,044</u>

**Pension and OPEB Plan Fiduciary Net Position**

Detailed information about the pension and OPEB plan's fiduciary net position is available in the separately issued Michigan Public School Employees Retirement System 2017 Comprehensive Annual Financial Report.

**Payable to the Pension and OPEB Plan** - At year end the School District is current on all required pension and other postemployment benefit plan payments. Amounts accrued at year end for accounting purposes are included in the financial statements as a liability titled accrued payroll and payroll liabilities. These amounts represent current payments for June paid in July, accruals for summer pay primarily for teachers and the contributions due funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate.

**Other Information** - On December 20, 2017, the Michigan Supreme Court affirmed that Public Act 75 of 2010 is unconstitutional as it substantially impaired the employee's employment contracts by involuntarily reducing the employee's wages by 3%. As a result, the funds collected pursuant to Public Act 75 before the effective date of Public Act 300 of 2012, must be refunded to the employees in accordance with the Michigan Court of Claims judgment on the aforementioned court case. Effective September 30, 2017, the 3% contribution collected under Public Act 75, which amounted to approximately \$554 million (including interest), was posted as a liability on the plan's CAFR report.

**HARRISON COMMUNITY SCHOOLS**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2018**

**NOTE 12 - GRANTS**

The School District receives significant financial assistance from federal and state governmental agencies in the form of grants. The disbursement of funds received under these programs generally require compliance with terms and conditions specified in the grant agreements and are subject to audit by the School District's independent auditors and other governmental auditors. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable fund. Based on prior experience, the School District administration believes such disallowance, if any, would be immaterial.

**NOTE 13 - ECONOMIC DEPENDENCY**

The School District received approximately 74% of their General Fund revenue from the Michigan Department of Education. Due to the significance of this revenue source to the School District, the School District is considered to be economically dependent.

**NOTE 14 - BOND COMPLIANCE**

The 2017 Capital Projects Funds includes capital project activities funded with bonds issued after May 1, 1994. For this capital project, the School District has complied with the applicable provisions of Section 1351a of the Revised School Code.

The 2018 Capital Projects Funds includes capital project activities funded with bonds issued after May 1, 1994. For this capital project, the School District has complied with the applicable provisions of Section 1351a of the Revised School Code.

**NOTE 15 - NEW ACCOUNTING STANDARDS**

For the year ended June 30, 2018, the School District implemented the following new pronouncements:

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

**Summary:**

GASB Statement No. 75 requires governments that participate in defined benefit other post-employment benefit (OPEB) plans to report in the statement of net position a net OPEB liability. The net OPEB liability is the difference between the total OPEB liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries. The Statement requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net OPEB liability and expense for the cost-sharing plan. The Statement also will improve the comparability and consistency of how governments calculate the OPEB liabilities and expense.

HARRISON COMMUNITY SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2018

**NOTE 15 - NEW ACCOUNTING STANDARDS (CONTINUED)**

The restatement of the beginning of the year net position follows:

	Governmental activities
Net position (deficit) as previously stated, July 1, 2017	\$ (6,674,285)
Adoption of GASB Statement 75:	
Net other postemployment benefit liability	(6,525,275)
Deferred outflows	463,469
Deferred inflows	(196,077)
	(6,257,883)
 Net position as restated, July 1, 2017	 \$ (12,932,168)

**NOTE 16 - TAX ABATEMENTS**

Effective for the year ended June 30, 2017 the School District is required to disclose significant tax abatements as required by GASB statement 77 (Tax abatements).

The School District receives reduced property tax revenues as a result of Industrial Facilities Tax exemptions, Brownfield Redevelopment Agreements, and Payments in Lieu of Taxes (PILOT) granted by cities, villages and townships. 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; PILOT programs apply to multiple unit housing for citizens of low income and the elderly.

The taxes abated for the General Fund operating millage is considered by the State of Michigan when determining the School District's section 22 funding of the State School Aid Act.

There are no significant abatements made by the School District.

**HARRISON COMMUNITY SCHOOLS**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2018**

**NOTE 17 - UPCOMING ACCOUNTING PRONOUNCEMENT**

Governmental Accounting Standards Board (GASB) Statement No. 84, Fiduciary Activities, was issued by GASB in January 2017 and will be effective for the School District's 2020 year end. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities for all state and local governments. The focus on the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. School Districts with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position.

Governmental Accounting Standards Board (GASB) Statement No. 87, Leases, was issued by the GASB in June 2017 and will be effective for the School District's 2021 year end. The objective of this Statement is to increase the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use the underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

**HARRISON COMMUNITY SCHOOLS**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule - General Fund**  
**For the Year Ended June 30, 2018**

	Original Budget	Final Amended Budget	Actual	Variances with Final Budget Favorable (Unfavorable)
<u>Revenues</u>				
Local sources				
Property taxes	\$ 3,777,778	\$ 3,756,059	\$ 3,769,075	\$ 13,016
Other local sources	112,643	118,900	123,045	4,145
State sources	8,447,970	9,012,463	8,907,633	(104,830)
Federal sources	1,284,429	1,784,477	1,498,300	(286,177)
Interdistrict and other sources	530,773	531,068	549,823	18,755
Total revenues	<u>14,153,593</u>	<u>15,202,967</u>	<u>14,847,876</u>	<u>(355,091)</u>
<u>Expenditures</u>				
Instruction:				
Basic programs	6,547,459	6,723,071	6,658,681	64,390
Added needs	2,329,068	2,680,560	2,577,250	103,310
Support services:				
Pupil	682,950	740,318	692,548	47,770
Instructional staff	422,681	623,713	335,615	288,098
General administrative	308,619	328,944	319,730	9,214
School administrative	857,946	991,308	936,575	54,733
Business services	277,151	289,310	271,061	18,249
Operations and maintenance	1,232,855	1,210,574	1,108,730	101,844
Transportation	883,938	848,600	817,987	30,613
Other central support	310,160	285,290	270,893	14,397
Community services	128,437	104,575	90,945	13,630
Athletics	199,948	196,569	189,821	6,748
Total expenditures	<u>14,181,212</u>	<u>15,022,832</u>	<u>14,269,836</u>	<u>752,996</u>
Excess (deficiency) of revenues over expenditures	<u>(27,619)</u>	<u>180,135</u>	<u>578,040</u>	<u>397,905</u>
<u>Other Financing Sources (Uses)</u>				
Operating transfer in	0	0	16,895	16,895
Operating transfer out	(232,625)	(230,625)	(228,250)	2,375
Total other financing sources (uses)	<u>(232,625)</u>	<u>(230,625)</u>	<u>(211,355)</u>	<u>19,270</u>
Net change in fund balance	(260,244)	(50,490)	366,685	417,175
Fund balance - beginning of year	<u>2,014,023</u>	<u>2,014,023</u>	<u>2,014,023</u>	<u>0</u>
Fund balance - end of year	<u>\$ 1,753,779</u>	<u>\$ 1,963,533</u>	<u>\$ 2,380,708</u>	<u>\$ 417,175</u>

**HARRISON COMMUNITY SCHOOLS**  
**Required Supplemental Information**  
**Schedule of the Reporting Unit's Proportionate Share of the Net Pension Liability**  
**Michigan Public School Employees Retirement Plan**  
**Last 10 Fiscal Years (Amounts were determined as of 9/30 of each fiscal year)**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Reporting unit's proportion of net pension liability (%)	0.07009 %	0.07022 %	0.07357 %	0.07345 %
Reporting unit's proportionate share of net pension liability	\$18,162,998	\$17,519,148	\$17,968,535	\$16,177,467
Reporting unit's covered-employee payroll*	\$ 5,898,481	\$ 5,778,289	\$ 6,105,618	\$ 6,227,958
Reporting unit's proportionate share of net pension liability as a percentage of its covered-employee payroll	32.47526 %	32.98271 %	33.97950 %	38.49773 %
Plan fiduciary net position as a percentage of total pension liability (Non-university employers)	64.21000 %	63.27000 %	62.92000 %	66.15000 %

\* The employer's covered payroll is defined by GASB 82, *Pension Issues - an amendment to GASB Statements No. 67, No. 68, and No. 73*, as payroll on which contributions to a pension plan are based. For non-university employers, covered payroll for both pension and OPEB represents payroll on which contributions to both plans are based.

With the implementation of GASB Statement No. 68 in 2015, the 10 year history will be provided prospectively until a full 10 year history is shown.

**HARRISON COMMUNITY SCHOOLS**  
**Required Supplemental Information**  
**Schedule of the Reporting Unit's Pension Contributions**  
**Michigan Public School Employees Retirement Plan**  
Last 10 Reporting Unit Fiscal Years (Amounts were determined as of 6/30 of each fiscal year)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contributions	\$ 1,949,849	\$ 1,641,197	\$ 1,518,293	\$ 1,515,356
Contributions in relation to statutorily required contributions*	<u>1,949,849</u>	<u>1,641,197</u>	<u>1,518,293</u>	<u>1,515,356</u>
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Reporting unit's covered-employee payroll**	\$ 6,096,621	\$ 6,088,945	\$ 5,781,392	\$ 6,856,033
Contributions as a percentage of covered-employee payroll	31.98 %	26.95 %	26.26 %	22.10 %

\* Contributions in relation to statutorily required contributions are the contributions a reporting unit actually made to the System, as distinct from the statutorily required contributions.

\*\* The employer's covered payroll is defined by GASB 82, *Pension Issues - an amendment to GASB Statements No. 67, No. 68, and No. 73*, as payroll on which contributions to a pension plan are based. For non-university employers, covered payroll for both pensions and OPEB represents payroll on which contributions to both plans are based.

With the implementation of GASB Statement No. 68 in 2015, the 10 year history will be provided prospectively until a full 10 year history is shown.

**HARRISON COMMUNITY SCHOOLS**  
**Required Supplemental Information**  
**Schedule of the Reporting Unit's Proportionate Share of the Net OPEB Liability**  
**Michigan Public School Employees Retirement Plan**  
**Last 10 Fiscal Years (Amounts were determined as of 9/30 of each fiscal year)**

		<u><b>2017</b></u>
Reporting unit's proportion of net OPEB liability (%)		0.06986 %
Reporting unit's proportionate share of net OPEB liability	\$	6,186,394
Reporting unit's covered-employee payroll*	\$	5,898,481
Reporting unit's proportionate share of net OPEB liability as a percentage of its covered-employee payroll		95.34603 %
Plan fiduciary net position as a percentage of total OPEB liability (Non-university employers)		36.39000 %

\* The employer's covered payroll is defined by GASB 85, *Omnibus 2017*, as payroll on which contributions to the OPEB plan are based. For non-university employers, covered payroll for both pension and OPEB represents payroll on which contributions to both plans are based.

With the implementation of GASB Statement No. 75 in 2018, the 10 year history will be provided prospectively until a full 10 year history is shown.

**HARRISON COMMUNITY SCHOOLS**  
**Required Supplemental Information**  
**Schedule of the Reporting Unit's OPEB Contributions**  
**Michigan Public School Employees Retirement Plan**  
Last 10 Reporting Unit Fiscal Years (Amounts were determined as of 6/30 of each fiscal year)

	<u><b>2018</b></u>
Statutorily required contributions	\$ 488,641
Contributions in relation to statutorily required contributions*	<u>488,641</u>
Contribution deficiency (excess)	<u>\$ 0</u>
Reporting unit's covered-employee payroll**	\$ 6,096,621
Contributions as a percentage of covered-employee payroll	8.01 %

\* Contributions in relation to statutorily required contributions are the contributions a reporting unit actually made to the System, as distinct from the statutorily required contributions.

\*\* The employer's covered payroll is defined by GASB 85, *Omnibus 2017*, as payroll on which contributions to the OPEB plan are based. For non-university employers, covered payroll for both pension and OPEB represents payroll on which contributions to both plans are based.

With the implementation of GASB Statement No. 75 in 2018, the 10 year history will be provided prospectively until a full 10 year history is shown.

HARRISON COMMUNITY SCHOOLS  
Notes to Required Supplementary Information  
For the Year Ended June 30, 2018

**Changes of benefit terms:** There were no changes of benefit terms in 2018.

**Changes of assumptions:** Assumption changes are a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation.

HARRISON COMMUNITY SCHOOLS  
Other Supplemental Information  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2018

	Special Revenue Fund		Debt Service Funds			Total
	Food Service	2009 Debt	Energy Bond Debt	2017 Debt	2018 Debt	
<u>Assets</u>						
Cash and investments	\$ 587,530	\$ 125,663	\$ 0	\$ 170,679	\$ 95,891	\$ 979,763
Due from other funds	1,737	0	0	0	1,041	2,778
Due from other governmental units	11,045	5,710	0	3,947	0	20,702
Inventories	17,392	0	0	0	0	17,392
Prepaid expenditures	75,000	0	0	0	0	75,000
Total assets	<u>\$ 692,704</u>	<u>\$ 131,373</u>	<u>\$ 0</u>	<u>\$ 174,626</u>	<u>\$ 96,932</u>	<u>\$ 1,095,635</u>
<u>Liabilities and Fund Balance</u>						
<u>Liabilities</u>						
Accounts payable	\$ 246,626	\$ 0	\$ 0	\$ 0	\$ 0	\$ 246,626
Due to other funds	22,515	0	0	0	0	22,515
Total liabilities	<u>269,141</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>269,141</u>
<u>Fund Balance</u>						
Non-spendable - inventory	17,392	0	0	0	0	17,392
Non-spendable - prepaid expenditures	75,000	0	0	0	0	75,000
Restricted for debt service	0	131,373	0	174,626	96,932	402,931
Restricted for food service	331,171	0	0	0	0	331,171
Total fund balance	<u>423,563</u>	<u>131,373</u>	<u>0</u>	<u>174,626</u>	<u>96,932</u>	<u>826,494</u>
Total liabilities and fund balance	<u>\$ 692,704</u>	<u>\$ 131,373</u>	<u>\$ 0</u>	<u>\$ 174,626</u>	<u>\$ 96,932</u>	<u>\$ 1,095,635</u>

HARRISON COMMUNITY SCHOOLS  
Other Supplemental Information  
Combining Statement of Revenues, Expenditures  
and Changes in Fund Balance - Nonmajor Governmental Funds  
For the Year Ended June 30, 2018

	Special	Debt Service Funds				Total
	Revenue Fund	Energy Bond				
	Food Services	2009 Debt	Debt	2017 Debt	2018 Debt	
<u>Revenues</u>						
Local sources						
Property taxes	\$ 0	\$ 1,113,885	\$ 0	\$ 596,548	\$ 0	\$ 1,710,433
Other local sources	199,453	476	0	211	32	200,172
State sources	31,406	0	0	0	0	31,406
Federal sources	914,342	0	0	0	0	914,342
Total revenues	<u>1,145,201</u>	<u>1,114,361</u>	<u>0</u>	<u>596,759</u>	<u>32</u>	<u>2,856,353</u>
<u>Expenditures</u>						
Food services	1,196,547	0	0	0	0	1,196,547
Debt service:						
Principal	0	1,000,000	220,000	200,000	0	1,420,000
Interest and other	0	115,350	8,250	222,133	41,452	387,185
Total expenditures	<u>1,196,547</u>	<u>1,115,350</u>	<u>228,250</u>	<u>422,133</u>	<u>41,452</u>	<u>3,003,732</u>
Excess (deficiency) of revenues over expenditures	<u>(51,346)</u>	<u>(989)</u>	<u>(228,250)</u>	<u>174,626</u>	<u>(41,420)</u>	<u>(147,379)</u>
<u>Other Financing Sources (Uses)</u>						
Operating transfer in	1,425	0	228,250	0	0	229,675
Operating transfers out	(18,320)	0	0	0	0	(18,320)
Proceeds from issuance of bonds	0	0	0	0	138,352	138,352
Total other financing sources (uses)	<u>(16,895)</u>	<u>0</u>	<u>228,250</u>	<u>0</u>	<u>138,352</u>	<u>349,707</u>
Net change in fund balance	(68,241)	(989)	0	174,626	96,932	202,328
Fund balance - beginning of year	491,804	132,362	0	0	0	624,166
Fund balance - end of year	<u>\$ 423,563</u>	<u>\$ 131,373</u>	<u>\$ 0</u>	<u>\$ 174,626</u>	<u>\$ 96,932</u>	<u>\$ 826,494</u>

**HARRISON COMMUNITY SCHOOLS**  
**Other Supplemental Information**  
**Schedule of Bonded Indebtedness**  
**For the Year Ended June 30, 2018**

<u>PURPOSE</u>	The Energy Bonds were issued for the purpose of constructing energy conservation improvements to school facilities.		
<u>DATE OF ISSUE</u>	July 25, 2005		
<u>AMOUNT OF ISSUE</u>		\$	2,305,000
<u>AMOUNT OF REDEEMED</u>			
	During prior years	\$	2,085,000
	During current years	<u>220,000</u>	<u>2,305,000</u>
<u>BALANCE OUTSTANDING - June 30, 2018</u>		<u>\$</u>	<u>0</u>

**HARRISON COMMUNITY SCHOOLS**  
**Other Supplemental Information**  
**Schedule of Bonded Indebtedness**  
**For the Year Ended June 30, 2018**

<u>PURPOSE</u>	The bonds were issued to refund the 1998 general obligation bonds.				
<u>DATE OF ISSUE</u>	February 19, 2009				
<u>AMOUNT OF ISSUE</u>					\$ 9,295,000
<u>AMOUNT OF REDEEMED</u>					
	During prior years			\$ 6,415,000	
	During current years	1,000,000			7,415,000
<u>BALANCE OUTSTANDING - June 30, 2018</u>					<u>\$ 1,880,000</u>
<u>Fiscal Year</u>	<u>Interest Rate</u>	<u>Requirements</u>			
		<u>Principal</u>	<u>Interest</u>	<u>Total</u>	
2019	4.00%	\$ 940,000	\$ 75,200	\$ 1,015,200	
2020	4.00%	940,000	37,600	977,600	
		<u>\$ 1,880,000</u>	<u>\$ 112,800</u>	<u>\$ 1,992,800</u>	

**HARRISON COMMUNITY SCHOOLS**  
**Other Supplemental Information**  
**Schedule of Bonded Indebtedness**  
**For the Year Ended June 30, 2018**

PURPOSE

The bonds were issued for the purpose of erecting, furnishing and equipping additions to the school buildings; erecting a team facility building on the athletic field; and preparing, developing and improving playgrounds, athletic facilities and sites.

DATE OF ISSUE

August 16, 2017

AMOUNT OF ISSUE

\$ 7,890,000

AMOUNT OF REDEEMED

During prior years	\$	0	
During current years		200,000	200,000

BALANCE OUTSTANDING - June 30, 2018

\$ 7,690,000

<u>Fiscal Year</u>	<u>Interest Rate</u>	<u>Requirements</u>		
		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	3.00%	\$ 0	\$ 307,600	\$ 307,600
2020	4.00%	0	307,600	307,600
2021	4.00%	0	307,600	307,600
2022	4.00%	0	307,600	307,600
2023	4.00%	0	307,600	307,600
2024	4.00%	0	307,600	307,600
2025	4.00%	0	307,600	307,600
2026	4.00%	0	307,600	307,600
2027	4.00%	0	307,600	307,600
2028	4.00%	355,000	307,600	662,600
2029	4.00%	380,000	293,400	673,400
2030	4.00%	650,000	278,200	928,200
2031	4.00%	675,000	252,200	927,200
2032	4.00%	705,000	225,200	930,200
2033	4.00%	735,000	197,000	932,000
2034	4.00%	770,000	167,600	937,600
2035	4.00%	800,000	136,800	936,800
2036	4.00%	835,000	104,800	939,800
2037	4.00%	875,000	71,400	946,400
2038	4.00%	910,000	36,400	946,400
		\$ 7,690,000	\$ 4,839,000	\$ 12,529,000

**HARRISON COMMUNITY SCHOOLS**  
**Other Supplemental Information**  
**Schedule of Bonded Indebtedness**  
**For the Year Ended June 30, 2018**

PURPOSE

The bonds were issued for the purpose of erecting, furnishing and equipping additions to the school buildings; erecting a team facility building on the athletic field; and preparing, developing and improving playgrounds, athletic facilities and sites.

DATE OF ISSUE

February 14, 2018

AMOUNT OF ISSUE

\$ 4,595,000

AMOUNT OF REDEEMED

During prior years  
 During current years

\$ 0  
 0

BALANCE OUTSTANDING - June 30, 2018

\$ 4,595,000

<u>Fiscal Year</u>	<u>Interest Rate</u>	<u>Requirements</u>		
		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	4.00%	\$ 270,000	\$ 193,800	\$ 463,800
2020	4.00%	325,000	183,000	508,000
2021	4.00%	500,000	170,000	670,000
2022	4.00%	500,000	150,000	650,000
2023	4.00%	500,000	130,000	630,000
2024	4.00%	500,000	110,000	610,000
2025	4.00%	500,000	85,000	585,000
2026	4.00%	500,000	60,000	560,000
2027	4.00%	500,000	40,000	540,000
2028	4.00%	250,000	20,000	270,000
2029	4.00%	250,000	10,000	260,000
		<u>\$ 4,595,000</u>	<u>\$ 1,151,800</u>	<u>\$ 5,746,800</u>



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

October 5, 2018

Board of Education  
Harrison Community Schools  
Harrison, Michigan

We have audited, in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Harrison Community Schools (School District), as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise Harrison Community Schools' basic financial statements and have issued our report thereon dated October 5, 2018.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Harrison Community Schools' 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 Harrison Community Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of Harrison Community Schools' internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency: 2018-001.



Board of Education  
Harrison Community Schools  
October 5, 2018

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Harrison Community Schools' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the 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*.

## **Response to Findings**

Harrison Community Schools' response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Harrison Community Schools' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **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 School District'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.

*Weinlander Fitzhugh*



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

October 5, 2018

Board of Education  
Harrison Community Schools  
Harrison, Michigan

### **Report on Compliance for Each Major Federal Program**

We have audited Harrison Community Schools' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Harrison Community Schools' major federal programs for the year ended June 30, 2018. Harrison Community Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

#### ***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Harrison Community Schools' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Harrison Community Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Harrison Community Schools' compliance.

#### ***Opinion on Each Major Federal Program***

In our opinion, Harrison Community Schools, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

-65-



Board of Education  
Harrison Community Schools  
October 5, 2018

## **Report on Internal Control Over Compliance**

Management of Harrison Community Schools, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Harrison Community Schools' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Harrison Community Schools' internal control over compliance.

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

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

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

*Weinlander Fitzhugh*

HARRISON COMMUNITY SCHOOLS  
 Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2018

**SECTION I - Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued:	<u>Unmodified opinion</u>
Internal control over financial reporting:	
• Material weakness(es) identified?	YES    NO
• Significant deficiency(ies) identified?	YES    NONE REPORTED
Noncompliance material to financial statements noted?	YES    NO

**Federal Awards**

Internal Control over major programs:	
• Material weakness(es) identified?	YES    NO
• Significant deficiency(ies) identified?	YES    NONE REPORTED
Type of auditor's report issued on compliance of major programs:	<u>Unmodified opinion</u>
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	YES    NO

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title 1

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee?	YES    NO
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HARRISON COMMUNITY SCHOOLS  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2018

**SECTION II - Financial Statement Findings**

**2018-001 (Repeat Finding 2017-001)**

Criteria or Specific Requirement

Establishment and maintenance of internal controls over the financial reporting process.

Condition

Due to the complexity of the required note disclosures and the district-wide statements in accordance with GASB 34, the School District does not maintain personnel who can report in accordance with U.S. generally accepted accounting principles without auditor involvement.

Context

Internal controls should be in place to provide reasonable assurance to the School District that management possesses the skills necessary to monitor and report annual financial activity without auditor involvement.

Effect

The effect of this condition places a reliance on the independent auditor to be part of the School District's internal controls over financial reporting.

Cause

The cause is the result of the complexity of the financial reporting process in accordance with U.S. generally accepted accounting principles and GASB pronouncements.

Recommendation

The School District should review and implement the necessary education and procedural activities to monitor and report annual financial activity.

Views of the Responsible Officials and Planned Corrective Action

As a result of the state of educational finding, the School District has not allocated resources to fund the process. We intend to re-evaluate once funding becomes available for the additional education and monitoring.

**SECTION III - Federal Award Findings and Questioned Costs**

There are no matters reported.

HARRISON COMMUNITY SCHOOLS  
Summary Schedule of Prior Year Findings  
For the Year Ended June 30, 2018

**2017-001**

Audit Finding

All audit findings listed above are repeat findings in the current year.

Corrective Action Taken

Corrective action plans were not implemented properly.

**HARRISON COMMUNITY SCHOOLS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Year Ended June 30, 2018**

Federal Grantor Pass Through Grantor <u>Program Title Grant Number</u>	Federal CFDA <u>Number</u>	Approved Grant Award <u>Amount</u>	(Memo Only) Prior Year <u>Expenditures</u>	Accrued (Deferred) Revenue <u>July 1, 2017</u>	<u>Adjustments</u>	Current Year Receipts <u>(Cash Basis)</u>	Current Year <u>Expenditures</u>	Accrued (Deferred) Revenue <u>June 30, 2018</u>
<u>U.S. Department of Education</u>								
Passed through Michigan Department of Education								
ECIA Title I								
Improving Basic Programs								
	84.010							
Project 171530-1617		\$ 931,531	\$ 826,444	\$ 262,747	\$ 0	\$ 262,747	\$ 0	\$ 0
Project 181530-1718		1,093,076	0	0	0	673,073	999,133	326,060
			<u>826,444</u>	<u>262,747</u>	<u>0</u>	<u>935,820</u>	<u>999,133</u>	<u>326,060</u>
Title VI-Part B:								
Project 180660-1718	84.358B	30,553	0	0	0	26,069	26,069	0
Title II-Part A:								
Project 170520-1617	84.367	258,318	122,054	36,721	0	36,721	0	0
Project 180520-1718		263,982	0	0	0	12,674	79,632	66,958
			<u>122,054</u>	<u>36,721</u>	<u>0</u>	<u>49,395</u>	<u>79,632</u>	<u>66,958</u>
Title IV-Part A:								
Project 180750-1718	84.424	13,362	0	0	0	4,040	13,362	9,322
Total programs passed through MDE			<u>948,498</u>	<u>299,468</u>	<u>0</u>	<u>1,015,324</u>	<u>1,118,196</u>	<u>402,340</u>
Passed through Clare Galdwin RESD:								
Handicapped Preschool and School Program, IDEA								
Project 170450-1617	84.027	380,209	380,208	126,880	0	126,880	0	0
Project 180450-1718		380,104	0	0	0	135,221	380,104	244,883
Total programs passed through Clare Gladwin RESD:			<u>380,208</u>	<u>126,880</u>	<u>0</u>	<u>262,101</u>	<u>380,104</u>	<u>244,883</u>
Total U.S. Department of Education			<u>1,328,706</u>	<u>426,348</u>	<u>0</u>	<u>1,277,425</u>	<u>1,498,300</u>	<u>647,223</u>

See accompanying notes to Schedule of Expenditures of Federal Awards

**HARRISON COMMUNITY SCHOOLS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Year Ended June 30, 2018**

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue July 1, 2017	Adjustments	Current Year Receipts (Cash Basis)	Current Year Expenditures	Accrued (Deferred) Revenue June 30, 2018
<u>U.S. Department of Agriculture</u>								
Passed through Michigan Department of Education								
Child Nutrition Cluster:								
National School Breakfast Program	10.553							
Project 171970		\$ 248,928	\$ 216,335	\$ 6,292	\$ 0	\$ 38,886	\$ 32,594	\$ 0
Project 181970		220,141	0	0	0	220,141	220,141	0
			<u>216,335</u>	<u>6,292</u>	<u>0</u>	<u>259,027</u>	<u>252,735</u>	<u>0</u>
Free and Reduced lunches	10.555							
Project 171960		530,142	459,059	13,103	0	84,186	71,083	0
Project 171980		19,916	16,820	0	0	3,096	3,096	0
Project 181960		473,723	0	0	0	473,723	473,723	0
Project 181980		20,956	0	0	0	20,957	20,957	0
			<u>475,879</u>	<u>13,103</u>	<u>0</u>	<u>581,962</u>	<u>568,859</u>	<u>0</u>
SFSP Operating	10.559							
Project 170900		8,762	4,401	4,401	0	8,762	4,361	0
Project 171900		902	454	454	0	902	448	0
Project 180900		4,900	0	0	0	0	4,900	4,900
Project 181900		509	0	0	0	0	509	509
			<u>4,855</u>	<u>4,855</u>	<u>0</u>	<u>9,664</u>	<u>10,218</u>	<u>5,409</u>
Non-Cash Assistance (Commodities)	10.555							
Entitlement		63,846	0	0	0	63,846	63,846	0
<b>Total Child Nutrition Cluster</b>			<u>697,069</u>	<u>24,250</u>	<u>0</u>	<u>914,499</u>	<u>895,658</u>	<u>5,409</u>
CACFP Meals	10.558							
Project 171920		23,965	23,674	0	0	291	291	0
Project 172010		1,377	1,356	0	0	21	21	0
Project 181920		17,138	0	0	0	17,138	17,138	0
Project 182010		1,234	0	0	0	1,234	1,234	0
			<u>25,030</u>	<u>0</u>	<u>0</u>	<u>18,684</u>	<u>18,684</u>	<u>0</u>
<b>Total U.S. Department of Agriculture</b>			<u>722,099</u>	<u>24,250</u>	<u>0</u>	<u>933,183</u>	<u>914,342</u>	<u>5,409</u>
			<u>\$ 2,050,805</u>	<u>\$ 450,598</u>	<u>\$ 0</u>	<u>\$ 2,210,608</u>	<u>\$ 2,412,642</u>	<u>\$ 652,632</u>

See accompanying notes to Schedule of Expenditures of Federal Awards

**HARRISON COMMUNITY SCHOOLS**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2018**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal grant activity of Harrison Community Schools under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Harrison Community Schools, it is not intended to and does not present the financial position or changes in net position of Harrison Community Schools.

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts (if any) shown on the Schedule represent adjustments or credit made in the normal course of business to amounts reported as expenditures.

The School District has elected not to use the 10 percent de minimus indirect cost rate to recover costs as allowed under the Uniform Guidance.

The School District does not have any subrecipients.

**NOTE 2 - OTHER DISCLOSURES**

Management has utilized the Cash Management System Grant Auditor Report in preparing the Schedule of Expenditures of Federal Awards.



# WEINLANDER FITZHUGH

CERTIFIED PUBLIC ACCOUNTANTS  
& CONSULTANTS

October 5, 2018

Board of Education  
Harrison Community Schools  
Harrison, Michigan

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Harrison Community Schools (School District) for the year ended June 30, 2018. Professional standards require that we provide you with information about our responsibilities under U.S. generally accepted auditing standards, Government Auditing Standards and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 25, 2018. Professional standards also require that we communicate to you the following information related to our audit.

## **Significant Audit Matters**

### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Harrison Community Schools are described in Note 1 to the financial statements. During 2018, the School District implemented Governmental Accounting Standard Board No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The application of existing policies was not changed during 2018. We noted no transactions entered into by the School District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Estimates have been used to calculate the net pension liability and the net other postemployment benefit liability.

Management's estimate of depreciation is based on the estimated useful life of fixed assets. We evaluated the key factors and assumptions used to develop the estimated useful life of fixed assets in determining that depreciation is reasonable in relation to the financial statements taken as a whole.

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

### *Difficulties Encountered in Performing the Audit*

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



Board of Education  
Harrison Community Schools  
October 5, 2018  
Page 2

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

### *Disagreements with Management*

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

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated October 5, 2018.

### *Management Consultations with Other Independent Accountants*

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

### *Other Audit Findings or Issues*

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

### **Other Matters**

We applied certain limited procedures to management's discussion and analysis, budgetary comparison information, pension schedules and other postemployment benefits schedules, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.



# WEINLANDER FITZHUGH

Board of Education  
Harrison Community Schools  
October 5, 2018  
Page 3

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

A separate management letter was not issued.

## **Restriction on Use**

This information is intended solely for the information and use of Board of Education and management of Harrison Community Schools and is not intended to be and should not be, used by anyone other than these specified parties.

Very truly yours

*Weinlander Fitzhugh*



# Harrison Community Schools

P.O. Box 529 • 224 W. Main St. • Harrison, Michigan 48625  
(989) 539-7871

## HARRISON COMMUNITY SCHOOLS CORRECTIVE ACTION PLAN June 30, 2018

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2018-001	We will continue to send key individuals to workshops and conferences to increase skills and keep up to date on reporting guidelines during the ensuing fiscal year.	June 30, 2019	Rick Foote, Superintendent