



# WEINLANDER FITZHUGH

HARRISON COMMUNITY SCHOOLS  
HARRISON, MICHIGAN

FINANCIAL STATEMENTS  
JUNE 30, 2020

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# WEINLANDER FITZHUGH

CERTIFIED PUBLIC ACCOUNTANTS  
& CONSULTANTS

## INDEPENDENT AUDITOR'S REPORT

October 20, 2020

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, 2020 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, 2020 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 20, 2020

## ***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 20, 2020

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2020, 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, 2020

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, 2020.

**Financial Highlights**

The School District's net position decreased by \$1,010,144 or 9%. Program revenues were \$6,430,611 or 34% of total revenues, and general revenues were \$12,290,549 or 66%.

The General Fund reported a positive fund balance of \$2,962,533.

**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 and 2020 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, 2020

**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, 2020

**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, 2020 and 2019:

<b>Exhibit A</b>	<u>Governmental Activities</u>	
	<u>2020</u>	<u>2019</u>
<b>Assets</b>		
Current and other assets	\$ 20,312,841	\$ 7,085,501
Capital assets - net of accumulated depreciation	21,126,519	21,689,172
Total assets	<u>41,439,360</u>	<u>28,774,673</u>
<b>Deferred Outflows of Resources</b>		
Related to pensions and OPEB	<u>8,985,749</u>	<u>8,281,242</u>
<b>Liabilities</b>		
Current liabilities	3,958,881	4,342,149
Long-term liabilities	<u>55,070,607</u>	<u>40,144,052</u>
Total liabilities	<u>59,029,488</u>	<u>44,486,201</u>
<b>Deferred Inflows of Resources</b>		
Related to pensions and OPEB	<u>3,864,171</u>	<u>4,028,120</u>
<b>Net Position</b>		
Net investment in capital assets	8,015,982	7,777,636
Restricted	1,261,671	1,236,570
Unrestricted	<u>(21,746,203)</u>	<u>(20,472,612)</u>
Total net position	<u>\$ (12,468,550)</u>	<u>\$ (11,458,406)</u>

The analysis on the previous page focuses on net position (see Exhibit A). The School District's net position was \$(12,468,550) at June 30, 2020. Investment in property and equipment, net of related debt totaling \$8,015,982, 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.

The \$(21,746,203) 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 \$24,264,322 for 2020 and \$21,487,661 for 2019.

**HARRISON COMMUNITY SCHOOLS**  
**Management's Discussion and Analysis**  
For the Year Ended June 30, 2020

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 \$5,256,402 for 2020 and \$5,740,417 for 2019.

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, 2020 and 2019.

<b>Exhibit B</b>	Governmental Activities	
	2020	2019
<b>Revenues</b>		
Program revenue:		
Charges for services	\$ 355,404	\$ 370,076
Grants and categoricals	6,075,207	5,177,704
General revenue:		
Property taxes	5,837,567	5,658,620
State aid	6,378,520	7,073,606
Other	74,462	163,989
Total revenues	18,721,160	18,443,995
<b>Function/Program Expenses</b>		
Instruction	10,703,662	9,694,124
Support services	5,509,963	5,224,896
Community services	45,000	57,527
Food services	1,358,373	1,127,346
Athletics	221,197	217,571
Interest on long-term debt	527,131	678,542
Capital outlay	532,877	1,021,323
Depreciation (unallocated)	696,531	434,340
Loss on disposal of assets	0	21,676
Issuance costs	132,153	6,000
Adjustments to prior period revenue accounts	4,417	11,227
Total expenses	19,731,304	18,494,572
<b>Change in Net Position</b>	\$ (1,010,144)	\$ (50,577)

As reported in the statement of activities, the cost of all of our governmental activities this year was \$19,731,304. Certain activities were partially funded from those who benefited from the programs, \$355,404, or by the other governments and organizations that subsidized certain programs with grants and categoricals of \$6,075,207. We paid for the remaining "public benefit" portion of our governmental activities with \$5,837,567 in taxes, \$6,378,520 in State aid and with our other revenues, such as interest and entitlements.

**HARRISON COMMUNITY SCHOOLS**  
**Management's Discussion and Analysis**  
For the Year Ended June 30, 2020

The School District had a decrease in net position of \$1,010,144. District State Aid revenues decreased 5.5% due to the loss in enrollment of 75 students from the prior year, while property tax revenues, grant funding and categorical funding increased significantly. Overall, revenues were higher than the previous year by 1.5%. Expenditures for the year exceeded revenues by more than 5%. Instructional costs including wages and salaries of staff saw increases under the current contracts in place, including 3.52% increase in pension and health care costs. All staff continued to be paid throughout the Stay at Home order issued by the Governor, although schools were closed. School District expenditures increased approximately 6.7%, with a significant increase of 60% in depreciation over the prior year due to building renovations and equipment upgrades attributable to the Capital Project Fund expenditures associated with finalizing the bond project at the High School, Middle School and Athletic Complex. The district sold bonds in May 2020 to begin the second phase of the bond project and issuance costs were incurred. Finally, the Food Service fund expenditures increased 20% due to the pandemic and increased cost of providing meals to students during the shutdown. The combined effect of these changes led to the decrease in net position. The decrease 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 \$17,420,511, which is above last year's total of \$4,096,384. The schedule below indicates the fund balance and the total change in fund balances as of June 30, 2020 and 2019.

	Fund Balance <u>6/30/2020</u>	Fund Balance <u>6/30/2019</u>	Increase (Decrease)
General	\$ 2,962,533	\$ 2,771,782	\$ 190,751
Capital projects	13,095,866	467,767	12,628,099
Special Revenue	759,165	494,623	264,542
Debt Service	602,947	362,212	240,735
	<u>\$ 17,420,511</u>	<u>\$ 4,096,384</u>	<u>\$ 13,324,127</u>

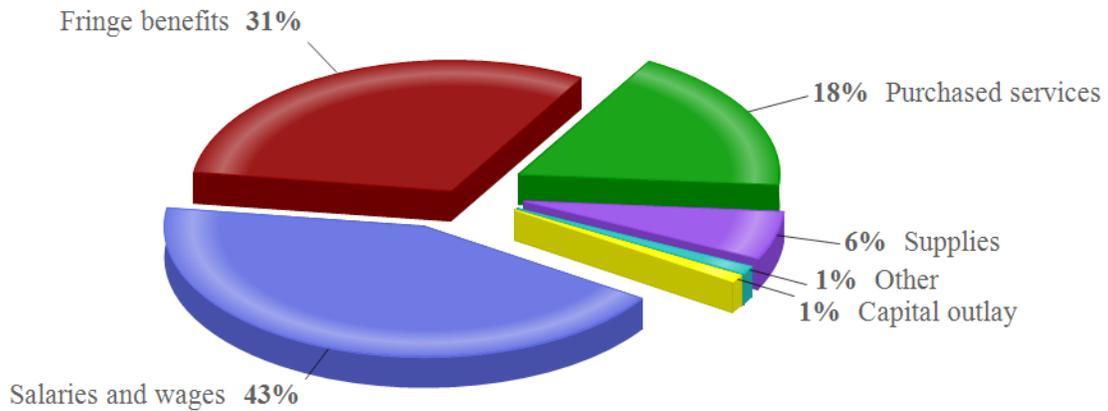
**HARRISON COMMUNITY SCHOOLS**  
Management's Discussion and Analysis  
For the Year Ended June 30, 2020

- Our General Fund Balance increase is mainly due to the decrease in actual expenditures as a result of the Covid-19 pandemic and resulting school shutdown/stay at home order mandated by the Governor from March through June 2020. With the cancellation of face to face classes and all school related activities, there was a significant decrease in expenditures for athletics, sub costs, custodial, transportation, supplies, maintenance, and utilities. Although the district experienced a decrease in enrollment of 75 students from the prior year, this was partially offset by an increase of \$240 to the State Aid per pupil foundation allowance. Additionally, Federal grant allocations were increased, and savings in program costs due to the retirements/leave of absences of experienced staff who were replaced with newly certified staff who placed lower on the salary schedule, or long term subs if suitable staff could not be obtained. Program costs were carefully considered and staffing levels maintained. Large expenditures for HVAC and building repairs continue to be minimal in the HS/MS due to the 2017/2018 bond renovation project, and utility cost savings were also realized with the upgraded equipment .
- Our Special Revenue Fund– Food Service increased due mainly to the Covid-19 pandemic and unanticipated school closure in March 2020 where the district prepared and delivered student breakfast and lunches March – June 2020. Significant revenues were realized due to the large of number of children being served through this process, with an enhanced Federal reimbursement meal rate during this period. Additionally, planned expenditures were unable to be completed during this time due to the Governor’s stay at home order where businesses were closed unless deemed essential, therefore capital expenditures were unable to be purchased before the June 30th fiscal year end. The combination of both of these events reduced planned fiscal year expenditures significantly, while the district continues to earn significant revenue with catering activities resulting in increased fund balance.
- Our Debt Service Funds increased due to the final payoff of the 2009 bonded debt, and taxes collected being close to other debt payments due.
- Our Capital Projects Fund Balance increased due to the sale of the 2020 bonds in May to finance the second phase of the bond project to complete an addition and renovation to district elementary buildings. The planned improvements had just begun at the end of the fiscal year in June, therefore, the majority of expenditures will be incurred over the course of the next 12-15 months.

HARRISON COMMUNITY SCHOOLS  
 Management's Discussion and Analysis  
For the Year Ended June 30, 2020

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	2020	2019
Salaries and wages	\$ 6,517,466	\$ 6,408,529
Fringe benefits	4,710,693	4,570,933
Purchased services	2,736,705	2,857,306
Supplies	973,699	852,162
Capital outlay	10,174	88,500
Other	74,407	98,153
Total	<u>\$ 15,023,144</u>	<u>\$ 14,875,583</u>

**HARRISON COMMUNITY SCHOOLS**  
Management's Discussion and Analysis  
For the Year Ended June 30, 2020

Expenditures have increased by \$147,561 from the prior year which is mainly due to higher teacher salary/benefit costs as a result of the second year of the HEA contract that includes the replacement of 2 missed steps in year one, a 1% increase in wages on schedule in the current year, and the granting of longevity steps earlier. Additionally, staff retirement costs have increased 1.52% and State health care hard cap increased by 2.0%. Higher Federal grant revenue allowed more to be spent on added needs instruction, including additional teaching staff for intervention. Planned expenditures for new math/science books were incurred and chrome books were purchased due to the need for virtual learning during the pandemic. Additional supply costs were incurred with the purchase of personal protective equipment. Purchased services decreased due to the Covid-19 pandemic and Governor mandated school closure/stay at home order. This resulted in decreased expenditures in third party transportation, custodial and sub teacher costs. General fund major purchases of capital equipment were minimal included snow removal equipment.

**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 \$550,480 due to a 4.2% increase in originally budgeted property tax revenue, large increase in federal revenues as a result of higher than projected estimated revenues as well as the receipt of significant prior year carryover funds. Incoming transfers from the Resd for Medicaid and GSRP transportation revenue increased.
- Budgeted expenditures increased from the original budget by \$129,076 due to increased expenditures from the higher than estimated federal revenues and the addition of federal grant carryover funding.
- Actual revenues were under the final budgeted revenues by \$495,048 due to the August 2020 State Aid reduction that was not anticipated, as well as the less than budgeted actual costs/reimbursements from federal grant expenditures during the school shutdown from March through June 2020 due to the pandemic.
- Actual expenditures were under the final budgeted expenditures by \$627,752 due to the Covid-19 pandemic and resulting shutdown of schools from March through June in the stay at home order issued by the Governor. There was a significant amount of unspent grant allocations for added needs instruction and professional development, for overall supplies and maintenance costs, decreased transportation, custodial, and sub costs due to the shutdown, along with streamlined spending in all areas to preserve equity.

**HARRISON COMMUNITY SCHOOLS**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2020**

**Capital Assets**

At June 30, 2020, the School District had \$21,126,519 invested in a broad range of capital assets, including land, buildings, furniture and equipment.

	<u>2020</u>	<u>2019</u>
Land	\$ 239,002	\$ 239,002
Construction in process	62,155	0
Buildings and improvements	31,216,624	31,193,666
Buses and other vehicles	210,781	210,781
Furniture and equipment	<u>845,639</u>	<u>796,874</u>
Total capital assets	32,574,201	32,440,323
Less accumulated depreciation	<u>11,447,682</u>	<u>10,751,151</u>
Net capital assets	<u>\$ 21,126,519</u>	<u>\$ 21,689,172</u>

This year's additions of \$133,878 were mainly due to the replacement of worn out district maintenance vehicles, and construction in process in the beginning of the second phase of the bond project for the addition/renovation of the elementary buildings in the district, along with the final remaining upgrades of the first phase. Over the past three years 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 began in March 2018 with renovation and updates to the high school/middle school buildings, parking lots and athletic facility. The second project began in May 2020 with the addition/renovation of Larson Elementary to a K-5 elementary building, along with the renovation of Hillside Elementary for early childhood classrooms and administrative offices. The 2020 bond plans include the tearing down of aged portions of Hillside built in 1938 and 1948.

We anticipate the completion of the 2020 bond project by fall of 2021, and that the next year's capital additions will be significant due to the ongoing capital improvements with the 2020 bond monies. We present more detailed information about our capital assets in the notes to the financial statements.

**HARRISON COMMUNITY SCHOOLS**  
**Management's Discussion and Analysis**  
For the Year Ended June 30, 2020

**Debt**

At the end of this year, the School District had \$23,350,000 in bonds outstanding versus \$12,955,000 in the previous year - an increase of 80%.

	<u>2020</u>	<u>2019</u>
2020 General Obligation	\$ 11,660,000	\$ 0
2018 General Obligation	4,000,000	4,325,000
2017 General Obligation	7,690,000	7,690,000
2009 General Obligation	0	940,000
	<u>\$ 23,350,000</u>	<u>\$ 12,955,000</u>

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

Our elected Board and administration consider many factors when setting the School District's 2021 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 2021 fiscal year budget was adopted in June 2020, based on actual students enrolled in February 2016 and an estimate of students that will be enrolled in September 2020. Subsequently, in September 2020, the legislature passed a bill allowing the 2021 student count to be calculated using what is referred to as “the Super Blend”. This Super Blend method of calculating enrollment was established this year as a result of the Covid-19 pandemic and the option for students to choose virtual learning. With the Super Blend, schools would not be penalized if students left their district this fall for other online learning plans thereby decreasing district revenues. This super blend allows for the district to calculate enrollment combining 75% of the prior year audited count with 25% of the current year blend of February and October 2020 pupil counts, which is then multiplied by the foundation allowance per pupil. 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 2020-2021 school year, we anticipate that the fall student count will be close to the estimates used in creating the 2021 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.

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 2020-2021.

Due to the improvement of district facilities with the bond project, the new debt millage will be set a 4.30 mills to cover the corresponding bond payments.

HARRISON COMMUNITY SCHOOLS  
Management's Discussion and Analysis  
For the Year Ended June 30, 2020

**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, 2020

	Governmental Activities
<u>Assets</u>	
Cash and investments	\$ 17,890,782
Accounts receivable	27,257
Due from other governmental units	2,275,685
Inventories	32,517
Prepaid expenses	86,600
Capital assets less accumulated depreciation \$11,447,682	21,126,519
Total assets	41,439,360
<u>Deferred Outflows of Resources</u>	
Related to pensions	7,208,641
Related to OPEB	1,777,108
Total deferred outflows of resources	8,985,749
<u>Liabilities</u>	
Accounts payable	571,569
Unearned revenue	187,190
State aid anticipation note payable	1,215,600
Accrued payroll liabilities	917,971
Accrued interest payable	156,551
Long-term liabilities:	
Due within one year	910,000
Due in more than one year	25,549,883
Net pension liability	24,264,322
Net OPEB liability	5,256,402
Total liabilities	59,029,488
<u>Deferred Inflows of Resources</u>	
Related to pensions	1,837,490
Related to OPEB	2,026,681
Total deferred inflows of resources	3,864,171
<u>Net Position</u>	
Net investment in capital assets	8,015,982
Restricted for debt service	446,396
Restricted for capital projects	56,110
Restricted for food service	759,165
Unrestricted	(21,746,203)
Total net position	\$ (12,468,550)

See accompanying notes to financial statements.

HARRISON COMMUNITY SCHOOLS  
Statement of Activities  
For the Year Ended June 30, 2020

	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	\$ 10,703,662	\$ 115,353	\$ 4,318,493	\$ (6,269,816)
Support services	5,509,963	44,343	201,259	(5,264,361)
Community services	45,000	0	0	(45,000)
Food services	1,358,373	142,549	1,546,705	330,881
Athletics	221,197	53,159	8,750	(159,288)
Interest on long-term debt	527,131	0	0	(527,131)
Capital outlay	532,877	0	0	(532,877)
Depreciation (unallocated)	696,531	0	0	(696,531)
Issuance costs	132,153	0	0	(132,153)
Adjustments to prior period revenue accounts	4,417	0	0	(4,417)
Total governmental activities	\$ 19,731,304	\$ 355,404	\$ 6,075,207	(13,300,693)
General revenues:				
Taxes:				
Property taxes, levied for general purposes				4,034,871
Property taxes, levied for debt services				1,802,696
State aid				6,378,520
Interest and investment earnings				33,884
Other				40,578
Total general revenues				12,290,549
Change in net position				(1,010,144)
Net position - beginning of year				(11,458,406)
Net position - end of year				\$ (12,468,550)

See accompanying notes to financial statements.

HARRISON COMMUNITY SCHOOLS  
Governmental Funds  
Balance Sheet  
June 30, 2020

	<u>General</u>	<u>2020 Capital Projects</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
<u>Assets</u>				
Cash and investments	\$ 3,457,746	\$13,229,801	\$ 1,203,235	\$17,890,782
Accounts receivable	21,465	0	5,792	27,257
Due from other funds	10,580	0	100,763	111,343
Due from other governmental units	2,139,750	0	135,935	2,275,685
Inventories	0	0	32,517	32,517
Prepaid expenditures	11,600	0	75,000	86,600
 Total assets	 <u>\$ 5,641,141</u>	 <u>\$13,229,801</u>	 <u>\$ 1,553,242</u>	 <u>\$20,424,184</u>
<u>Liabilities and Fund Balance</u>				
<u>Liabilities</u>				
Accounts payable	\$ 257,084	\$ 190,045	\$ 124,440	\$ 571,569
Due to other funds	100,763	0	10,580	111,343
Unearned revenue	187,190	0	0	187,190
State aid anticipation note payable	1,215,600	0	0	1,215,600
Accrued payroll liabilities	917,971	0	0	917,971
 Total liabilities	 <u>2,678,608</u>	 <u>190,045</u>	 <u>135,020</u>	 <u>3,003,673</u>
<u>Fund Balance</u>				
Nonspendable - inventory	0	0	32,517	32,517
Nonspendable - prepaid expenditures	11,600	0	75,000	86,600
Restricted for debt service	0	0	602,947	602,947
Restricted for capital projects	0	13,039,756	56,110	13,095,866
Restricted for food service	0	0	651,648	651,648
Unassigned	2,950,933	0	0	2,950,933
 Total fund balance	 <u>2,962,533</u>	 <u>13,039,756</u>	 <u>1,418,222</u>	 <u>17,420,511</u>
 Total liabilities and fund balance	 <u>\$ 5,641,141</u>	 <u>\$13,229,801</u>	 <u>\$ 1,553,242</u>	 <u>\$20,424,184</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, 2020

Total fund balance - governmental funds	\$ 17,420,511
<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	32,574,201
Accumulated depreciation	(11,447,682)
<p>Deferred outflows used in governmental activities are not financial resources and therefore are not reported in governmental funds:</p>	
Related to pensions	7,208,641
Related to OPEB	1,777,108
<p>Long-term liabilities are not due and payable in the current period and are not reported in the funds:</p>	
Bonds payable	(23,350,000)
Compensated absences	(309,590)
Net pension liability	(24,264,322)
Net OPEB liability	(5,256,402)
Bond premium	(2,800,293)
Accrued interest payable is included as a liability in governmental activities	(156,551)
<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	(1,837,490)
Related to OPEB	<u>(2,026,681)</u>
Total net position - governmental activities	<u>\$ (12,468,550)</u>

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, 2020**

	General	2020 Capital Projects	Other Nonmajor Governmental Funds	Total
<u>Revenues</u>				
Local sources	\$ 4,179,824	\$ 7,774	\$ 1,952,694	\$ 6,140,292
State sources	8,870,453	0	38,507	8,908,960
Federal sources	1,554,310	0	1,508,199	3,062,509
Interdistrict and other sources	616,525	0	975	617,500
Total revenues	15,221,112	7,774	3,500,375	18,729,261
<u>Expenditures</u>				
Instruction	9,578,480	0	0	9,578,480
Support services	5,178,467	0	438	5,178,905
Community services	45,000	0	0	45,000
Athletics	221,197	0	0	221,197
Food services	0	0	1,430,096	1,430,096
Capital outlay	0	113,898	481,134	595,032
Debt service:				
Principal	0	0	1,265,000	1,265,000
Interest and other	0	0	528,200	528,200
Total expenditures	15,023,144	113,898	3,704,868	18,841,910
Excess (deficiency) of revenues over expenditures	197,968	(106,124)	(204,493)	(112,649)
<u>Other Financing Sources (Uses)</u>				
Proceeds from issuance of debt	0	11,429,140	230,860	11,660,000
Operating transfers in	10,580	37,177	121,731	169,488
Operating transfer out	(13,380)	(103,630)	(52,478)	(169,488)
Bond issuance costs	0	(130,153)	(2,000)	(132,153)
Bond premium	0	1,913,346	0	1,913,346
Adjustments to prior period revenue accounts	(4,417)	0	0	(4,417)
Total other financing sources (uses)	(7,217)	13,145,880	298,113	13,436,776
Net change in fund balance	190,751	13,039,756	93,620	13,324,127
Fund balance - beginning of year	2,771,782	0	1,324,602	4,096,384
Fund balance - end of year	\$ 2,962,533	\$13,039,756	\$ 1,418,222	\$17,420,511

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, 2020**

Net change in fund balance - total governmental funds	\$ 13,324,127
<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	(696,531)
Capital outlay	133,878
<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 premium	69,589
Proceeds from issuance of debt	(11,660,000)
Premium on issuance	(1,913,346)
Repayment of bonds	1,265,000
<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>	
	(40,152)
<p>Interest expense is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid</p>	
	(68,520)
<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	(1,752,564)
OPEB related items	328,375
	(1,424,189)
Change in net position of governmental activities	\$ (1,010,144)

See accompanying notes to financial statements.

HARRISON COMMUNITY SCHOOLS  
Fiduciary Funds  
Statement of Fiduciary Net Position  
June 30, 2020

	<u>Agency Funds</u>
<u>Assets</u>	
Cash and investments	\$ <u>133,660</u>
<u>Liabilities</u>	
Due to student groups	\$ <u>133,660</u>

See accompanying notes to financial statements.

**HARRISON COMMUNITY SCHOOLS**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2020**

**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, 2020

**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, 2020

**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.

**2020 Capital Projects Fund** - The Capital Project 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

**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.

HARRISON COMMUNITY SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2020

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

**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.

**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.

HARRISON COMMUNITY SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2020

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

**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, 2020**

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

**State Aid** - For the fiscal year ended June 30, 2020, 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, 2020, the foundation allowance was based on the average pupil membership counts taken in February of 2019 and October of 2019.

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 2019 - August 2020. The local revenue is recognized as outlined in Note 1. Amounts receivable from the State of Michigan at June 30, 2020 relating to state aid is \$1,407,108.

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, 2020

**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**

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

	Primary Government	Fiduciary Funds	Total
Cash and cash equivalents	\$ 17,890,782	\$ 133,660	\$ 18,024,442

As of June 30, 2020 the School District had deposits and investments subject to the following risk:

**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, 2020, \$5,038,819 of the School District's bank balance of \$5,288,819 was exposed to custodial credit risk because it was uninsured and uncollateralized.

**Custodial credit risk - investments.** For an investment, this is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The School District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the School District will do business.

HARRISON COMMUNITY SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2020

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

**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, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the School District's cash requirements.

Investment type	Fair value	Weighted average maturity (years)
MILAF External Investment Pool - CMC	\$ <u>12,819,899</u>	N/A

**Concentration of credit risk.** The School District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the School District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure by credit quality.

Investment type	Fair value	Rating	Rating Agency
MILAF External Investment Pool - CMC	\$ <u>12,819,899</u>	AAAm	Standard & Poor's

**Foreign currency risk.** The School District is not authorized to invest in investments which have this type of risk.

**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.

HARRISON COMMUNITY SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2020

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

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

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 voluntarily invests certain excess funds in external pooled investment funds which included money market funds. One of the pooled investment funds utilized by the School District is the Michigan Investment Liquid Asset Fund (MILAF). MILAF funds are considered external investment pools as defined by the GASB and as such are recorded at amortized cost which approximates 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.

	Amortized Cost
MILAF External Investment pool - CMC	<u>\$ 12,819,899</u>

The cash and cash equivalents and investments referred to above have been reported in either the cash and cash equivalents or investments captions on the financial statements, based upon criteria disclosed in Note 1.

HARRISON COMMUNITY SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2020

**NOTE 4 - CAPITAL ASSETS**

A summary of changes in governmental capital assets follows:

	Balance June 30, 2019	Additions	Disposals and Adjustments	Balance June 30, 2020
Assets not being depreciated:				
Land	\$ 239,002	\$ 0	\$ 0	\$ 239,002
Construction in process	0	62,155	0	62,155
Subtotal	<u>239,002</u>	<u>62,155</u>	<u>0</u>	<u>301,157</u>
Capital assets being depreciated:				
Buildings and improvements	31,193,666	22,958	0	31,216,624
Buses and other vehicles	210,781	0	0	210,781
Furniture and equipment	796,874	48,765	0	845,639
Subtotal	<u>32,201,321</u>	<u>71,723</u>	<u>0</u>	<u>32,273,044</u>
Accumulated depreciation:				
Buildings and improvements	10,337,522	615,974	0	10,953,496
Buses and other vehicles	101,655	28,862	0	130,517
Furniture and equipment	311,974	51,695	0	363,669
Subtotal	<u>10,751,151</u>	<u>696,531</u>	<u>0</u>	<u>11,447,682</u>
Net capital assets being depreciated	<u>21,450,170</u>	<u>(624,808)</u>	<u>0</u>	<u>20,825,362</u>
Net capital assets	<u>\$ 21,689,172</u>	<u>\$ (562,653)</u>	<u>\$ 0</u>	<u>\$ 21,126,519</u>

**HARRISON COMMUNITY SCHOOLS**  
**Notes to Financial Statements**  
For the Year Ended June 30, 2020

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

Depreciation expense for fiscal year ended June 30, 2020 was \$696,531. 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, 2020 are as follows:

		Payables		
		General	Food service	Total
Receivables	General	\$ 0	\$ 10,580	\$ 10,580
	Food service	45,013	0	45,013
	2018 Capital projects	55,750	0	55,750
	Total	\$ 100,763	\$ 10,580	\$ 111,343

A summary of interfund transfers made during the year ended June 30, 2020 are as follows:

		Transfers Out				
		General	Food service	2017 Capital projects	2020 Capital projects	Total
Transfers In	General	\$ 0	\$ 10,580	\$ 0	\$ 0	\$ 10,580
	Food service	13,380	0	0	0	13,380
	2018 Capital projects	0	0	4,721	103,630	108,351
	2020 Capital projects	0	0	37,177	0	37,177
Total	\$ 13,380	\$ 10,580	\$ 41,898	\$ 103,630	\$ 169,488	

Interfund transfers are used for indirect cost transfers and at-risk food transfer. Interfund transfers were also used to for capital projects.

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, 2020**

**NOTE 6 - RECEIVABLES**

Receivables at June 30, 2020 consist of accounts (fees), intergovernmental grants and interest.

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

State aid and grants	\$ 1,407,108
Federal grants	735,627
Other	132,950
	\$ 2,275,685

**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 \$187,190.

**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. At June 30, 2020, the School District has issued a state aid anticipation note payable in the amount of \$1,200,000, which has an interest rate of 1.30% and matures on August 20, 2020. The note is secured by the full faith and credit of the School District as well as pledged state aid. In an event of a default on the note, the state may impose a penalty interest rate and at the state's discretion, accelerate the repayment terms. Activity for the year ended June 30, 2020 is as follows:

	Beginning Balance	Issued	Redeemed	Ending Balance
State Aid Anticipation Note due August 20, 2019 accruing interest at 2.39%	\$ 1,228,680	\$ 0	\$ 1,228,680	\$ 0
State Aid Anticipation Note due August 20, 2020 accruing interest at 1.3%	0	1,215,600	0	1,215,600
	\$ 1,228,680	\$ 1,215,600	\$ 1,228,680	\$ 1,215,600

**HARRISON COMMUNITY SCHOOLS**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2020**

**NOTE 9 - LONG-TERM OBLIGATIONS**

The following is a summary of governmental long-term obligations for the School District for the year ended June 30, 2020:

	<u>Balance</u> <u>July 1, 2019</u>	<u>Additions</u>	<u>Retirements</u> <u>and Payments</u>	<u>Balance</u> <u>June 30, 2020</u>	<u>Amount Due</u> <u>Within One</u> <u>Year</u>
General obligation bonds	\$ 13,911,536	\$ 13,573,346	\$ 1,334,589	\$ 26,150,293	\$ 910,000
Compensated absences	<u>269,438</u>	<u>40,152</u>	<u>0</u>	<u>309,590</u>	<u>0</u>
	<u>\$ 14,180,974</u>	<u>\$ 13,613,498</u>	<u>\$ 1,334,589</u>	<u>\$ 26,459,883</u>	<u>\$ 910,000</u>

Long-term obligations at June 30, 2020 is comprised of the following issues:

General obligation bonds:

\$4,595,000 due in annual installments of \$463,800 to \$260,000 through May 1, 2029; interest at 4.0% to 5.0%	\$ 4,000,000
\$7,890,000 due in annual installments of \$307,600 to \$946,400 through May 1, 2038; interest at 3.0% to 4.0%	7,690,000
\$11,660,000 due in annual installments of \$410,000 to \$475,000 through May 1, 2045; interest at 4.0% to 5.0%	<u>11,660,000</u>
	23,350,000
Premium	<u>2,800,293</u>
Total bonded debt	<u>\$ 26,150,293</u>

Under the terms of 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, amount to \$309,590 at June 30, 2020.

HARRISON COMMUNITY SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2020

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

The annual debt service requirements on long-term debt as of June 30, 2020, including interest payments are as follows:

<u>Year Ended June 30</u>	General Obligation Bonds		
	Principal	Interest	Total
2021	\$ 910,000	\$ 955,810	\$ 1,865,810
2022	965,000	935,900	1,900,900
2023	965,000	897,300	1,862,300
2024	965,000	858,700	1,823,700
2025	965,000	815,100	1,780,100
2026 - 2030	5,210,000	3,457,900	8,667,900
2031 - 2035	6,020,000	1,065,600	7,085,600
2036 - 2040	4,975,000	1,065,600	6,040,600
2041 - 2045	2,375,000	351,500	2,726,500
	\$ 23,350,000	\$ 10,403,410	\$ 33,753,410

**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.

HARRISON COMMUNITY SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2020

**NOTE 11 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS**

**Plan Description**

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

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

The System is administered by the Office of Retirement Services (ORS) within the Michigan Department of Technology, Management & 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.

**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%.

HARRISON COMMUNITY SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2020

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

**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 (MPERS) who became a member of MPERS 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.

**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.

**HARRISON COMMUNITY SCHOOLS**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2020**

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

**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.

**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 for Basic Plan members and Pension Plus members (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 closed the Pension Plus plan to newly hired employees as of February 1, 2018 and created a new, optional Pension Plus 2 plan with similar plan benefit calculations but containing a 50/50 cost share between the employee and the employer, including the cost of future unfunded liabilities. The assumed rate of return on the Pension Plus 2 plan is 6%. Further, under certain conditions, the Pension Plus 2 plan will close to new employees if the actuarial funded ratio falls below 85% for two consecutive years. The law included 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, 2020

**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, 2020

**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.

Pension and OPEB contributions made in the fiscal year ending September 30, 2019 were determined as of the September 30, 2016 actuarial valuations. The pension and OPEB benefits, the unfunded (overfunded) actuarial accrued liabilities as of September 30, 2016, are amortized over a 20-year period beginning October 1, 2018 and ending September 30, 2038.

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, 2018 - September 30, 2019	13.39% - 19.59%	7.57% - 7.93%
October 1, 2019 - September 30, 2020	13.39% - 19.59%	7.57% - 8.09%

The School District's pension contributions for the year ended June 30, 2020 were equal to the required contribution total. Total pension contributions were approximately \$2,048,000. Of the total pension contributions approximately \$2,023,000 was contributed to fund the Defined Benefit Plan and approximately \$25,000 was contributed to fund the Defined Contribution Plan.

HARRISON COMMUNITY SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2020

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

The School District's OPEB contributions for the year ended June 30, 2020 were equal to the required contribution total. Total OPEB contributions were approximately \$540,000. Of the total OPEB contributions approximately \$518,000 was contributed to fund the Defined Benefit Plan and approximately \$22,000 was contributed to fund the Defined Contribution Plan.

These amounts, for both pension and OPEB benefits, 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**

The net pension liability was measured as of September 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2018 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.

MPSERS (Plan) Non-University Employers:	September 30, 2019	September 30, 2018
Total Pension Liability	\$ 83,442,507,212	\$ 79,863,694,444
Plan Fiduciary Net Position	\$ 50,325,869,388	\$ 49,801,889,205
Net Pension Liability	\$ 33,116,637,824	\$ 30,061,805,239
Proportionate share	0.07327 %	0.07148 %
Net Pension liability for the School District	\$ 24,264,322	\$ 21,487,661

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

For the year ended June 30, 2020, the School District recognized pension expense of approximately \$2,905,000.

HARRISON COMMUNITY SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2020

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

At June 30, 2020, 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	\$ 108,760	\$ (101,180)
Net difference between projected and actual earnings on pension plan investments	0	(777,630)
Changes in assumptions	4,750,971	0
Changes in proportion and differences between employer contributions and proportionate share of contributions	539,388	(154,374)
Unearned revenue related to pension portion of section 147 c	0	(804,306)
School District's contributions subsequent to the measurement date	<u>1,809,522</u>	<u>0</u>
<b>Total</b>	<u>\$ 7,208,641</u>	<u>\$ (1,837,490)</u>

\$1,809,522, 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 subsequent fiscal year.

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>
2021	\$ 1,629,955
2022	1,415,608
2023	946,571
2024	373,801
	<u>\$ 4,365,935</u>

HARRISON COMMUNITY SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2020

**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**

The net OPEB liability was measured as of September 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation date of September 30, 2018 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.

MPSERS (Plan) Non-University Employers:	September 30, 2019	September 30, 2018
Total OPEB Liability	\$ 13,925,860,688	\$ 13,932,170,264
Plan Fiduciary Net Position	\$ 6,748,112,668	\$ 5,983,218,473
Net OPEB Liability	\$ 7,177,748,020	\$ 7,948,951,791
Proportionate share	0.07323 %	0.07222 %
Net OPEB liability for the School District	\$ 5,256,402	\$ 5,740,417

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

For the year ended June 30, 2020, the School District recognized OPEB expense of approximately \$175,693.

HARRISON COMMUNITY SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2020

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

At June 30, 2020, the School District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred (Inflows) of Resources</u>
Difference between expected and actual experience	\$ 0	\$ (1,928,723)
Net difference between projected and actual plan investment	0	(91,411)
Changes of assumption	1,138,956	0
Changes in proportion and differences between employer contributions and proportionate share of contributions	213,384	(6,547)
School District's contributions subsequent to the measurement date	<u>424,768</u>	<u>0</u>
<b>Total</b>	<u>\$ 1,777,108</u>	<u>\$ (2,026,681)</u>

\$424,768, 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 June 30</b>	<b>Amount</b>
2021	\$ (191,762)
2022	(191,762)
2023	(146,136)
2024	(90,540)
2025	(54,141)
	<u>\$ (674,341)</u>

**Actuarial Assumptions**

**Investment rate of return for Pension** - 6.80% a year, compounded annually net of investment and administrative expenses for the MIP, Basic and Pension Plus groups and 6.00% a year, compounded annually net of investment and administrative expenses for the Pension Plus 2 Plan.

HARRISON COMMUNITY SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2020

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

**Investment rate of return for OPEB** - 6.95% a year, compounded annually net of investment and administrative expenses.

**Salary increases** - The rate of pay increase used for individual members is 2.75%.

**Inflation** - 3.0%

**Mortality assumptions** -

**Retirees:** RP-2014 Male and Female Healthy Annuitant Mortality Tables scaled by 82% for males and 78% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006.

**Active:** RP-2014 Male and Female Employee Annuitant Mortality Tables scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.

**Disabled Retirees:** RP-2014 Male and Female Disabled Annuitant Mortality Tables scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.

**Experience study** - The annual actuarial valuation report of the System used for these statements is dated September 30, 2018. Assumption changes as a result of an experience study for the periods 2012 through 2017 have been adopted by the System for use in the determination of the total pension and OPEB liability beginning with the September 30, 2017 valuation.

**The long-term expected rate of return on pension and other postemployment benefit plan investments** - The rate was 6.80% (MIP, Basic, and Pension Plus Plan) and 6.00% for the Pension Plus 2 Plan, and the other postemployment benefit rate was 6.95% 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.

HARRISON COMMUNITY SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2020

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

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

The target asset allocation at September 30, 2018 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%	5.5%
Private Equity Pools	18.0%	8.6%
International Equity Pools	16.0%	7.3%
Fixed Income Pools	10.5%	1.2%
Real Estate and Infrastructure Pools	10.0%	4.2%
Absolute Return Pools	15.5%	5.4%
Short Term Investment Pools	2.0%	0.8%
<b>Total</b>	<b>100.0%</b>	

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

**Rate of return** - For fiscal year ended September 30, 2019, the annual money-weighted rate of return on pension and OPEB plan investments, net of pension and OPEB plan investment expense, was 5.14% and 5.37% respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amount actually invested.

**Pension discount rate** - A single discount rate of 6.80% was used to measure the total pension liability (6.00% for the Pension Plus 2 Plan). This discount rate was based on the long-term rate of return on pension plan investments of 6.80% (6.00% for the Pension Plus 2 Plan). The projection of cash flows used to determine this single discount rate assumed that plan member 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.

HARRISON COMMUNITY SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2020

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

**OPEB Discount rate** - A single discount rate of 6.95% was used to measure the total OPEB liability. This discount rate was based on the long-term expected rate of return on OPEB plan investments of 6.95%. The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that 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.

**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 a single discount rate of 6.80% (6.00% for the Pension Plus 2 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</b>	<b>Discount Rate</b>	<b>1% Increase</b>
School District's proportionate share of the net pension liability	<u>\$31,545,171</u>	<u>\$24,264,322</u>	<u>\$18,228,248</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 6.95%, 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</b>	<b>Discount Rate</b>	<b>1% Increase</b>
School District's proportionate share of the net other postemployment benefit liability	<u>\$6,447,767</u>	<u>\$5,256,402</u>	<u>\$4,255,986</u>

HARRISON COMMUNITY SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2020

**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</b>	<b>Healthcare cost trend rates</b>	<b>1% Increase</b>
School District's proportionate share of the net OPEB liability	<u>\$4,213,573</u>	<u>\$5,256,402</u>	<u>\$6,447,626</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 2019 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.

**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 65% 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.

**HARRISON COMMUNITY SCHOOLS**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2020**

**NOTE 14 - BOND COMPLIANCE**

The 2020 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 - 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.

**NOTE 16 - 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 2021 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 2022 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  
Notes to Financial Statements  
For the Year Ended June 30, 2020

**NOTE 17 - SUBSEQUENT EVENT**

On March 11, 2020, the World Health Organization declared the coronavirus (COVID-19) a pandemic. As a result of the spread of COVID-19, economic uncertainties have arisen which are likely to negatively impact the Organization. While the disruption is currently expected to be temporary, there is considerable uncertainty regarding the duration. The overall financial impact of COVID-19 cannot be reasonably estimated at this time.

**HARRISON COMMUNITY SCHOOLS**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule - General Fund**  
**For the Year Ended June 30, 2020**

	Original Budget	Final Amended Budget	Actual	Variances with Final Budget Favorable (Unfavorable)
<u>Revenues</u>				
Local sources	\$ 4,028,766	\$ 4,199,081	\$ 4,179,824	\$ (19,257)
State sources	9,097,365	9,068,489	8,870,453	(198,036)
Federal sources	1,504,608	1,860,974	1,554,310	(306,664)
Interdistrict and other sources	534,941	587,616	616,525	28,909
Total revenues	<u>15,165,680</u>	<u>15,716,160</u>	<u>15,221,112</u>	<u>(495,048)</u>
<u>Expenditures</u>				
Instruction:				
Basic programs	6,897,216	6,796,389	6,665,489	130,900
Added needs	2,744,482	3,012,058	2,912,991	99,067
Support services:				
Pupil	1,056,334	1,039,677	995,391	44,286
Instructional staff	357,640	566,608	389,760	176,848
General administrative	321,288	313,558	296,156	17,402
School administrative	912,928	934,688	917,466	17,222
Business services	326,329	336,956	333,851	3,105
Operations and maintenance	1,330,110	1,270,171	1,230,272	39,899
Transportation	945,610	749,409	729,960	19,449
Information Services	353,648	338,282	285,611	52,671
Community services	36,615	58,075	45,000	13,075
Athletics	239,620	235,025	221,197	13,828
Total expenditures	<u>15,521,820</u>	<u>15,650,896</u>	<u>15,023,144</u>	<u>627,752</u>
Excess (deficiency) of revenues over expenditures	<u>(356,140)</u>	<u>65,264</u>	<u>197,968</u>	<u>132,704</u>
<u>Other Financing Sources (Uses)</u>				
Operating transfer in	0	0	10,580	10,580
Operating transfer out	0	0	(13,380)	(13,380)
Adjustments to prior period revenue accounts	0	0	(4,417)	(4,417)
Total other financing sources (uses)	<u>0</u>	<u>0</u>	<u>(7,217)</u>	<u>(7,217)</u>
Net change in fund balance	(356,140)	65,264	190,751	125,487
Fund balance - beginning of year	<u>2,771,782</u>	<u>2,771,782</u>	<u>2,771,782</u>	<u>0</u>
Fund balance - end of year	<u>\$ 2,415,642</u>	<u>\$ 2,837,046</u>	<u>\$ 2,962,533</u>	<u>\$ 125,487</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>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Reporting unit's proportion of net pension liability (%)	0.07327 %	0.07148 %	0.07009 %	0.07022 %	0.07357 %	0.07345 %
Reporting unit's proportionate share of net pension liability	\$24,264,322	\$21,487,661	\$18,162,998	\$17,519,148	\$17,968,535	\$16,177,467
Reporting unit's covered-employee payroll*	\$ 6,382,366	\$ 6,135,018	\$ 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	26.30350 %	28.55135 %	32.47526 %	32.98271 %	33.97950 %	38.49773 %
Plan fiduciary net position as a percentage of total pension liability (Non-university employers)	60.31000 %	62.36000 %	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>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contributions	\$ 2,022,857	\$ 1,938,494	\$ 1,949,849	\$ 1,641,197	\$ 1,518,293	\$ 1,515,356
Contributions in relation to statutorily required contributions*	<u>2,022,857</u>	<u>1,938,494</u>	<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>					
Reporting unit's covered-employee payroll**	\$ 6,428,313	\$ 6,345,905	\$ 6,096,621	\$ 6,088,945	\$ 5,781,392	\$ 6,856,033
Contributions as a percentage of covered-employee payroll	31.47 %	30.55 %	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>2019</b></u>	<u><b>2018</b></u>	<u><b>2017</b></u>
Reporting unit's proportion of net OPEB liability (%)	0.07323 %	0.07222 %	0.06986 %
Reporting unit's proportionate share of net OPEB liability	\$ 5,256,402	\$ 5,740,417	\$ 6,186,394
Reporting unit's covered-employee payroll*	\$ 6,382,366	\$ 6,135,018	\$ 5,898,481
Reporting unit's proportionate share of net OPEB liability as a percentage of its covered-employee payroll	121.42081 %	106.87408 %	95.34603 %
Plan fiduciary net position as a percentage of total OPEB liability (Non-university employers)	48.46000 %	42.95000 %	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>2020</u>	<u>2019</u>	<u>2018</u>
Statutorily required contributions	\$ 517,898	\$ 498,627	\$ 488,641
Contributions in relation to statutorily required contributions*	<u>517,898</u>	<u>498,627</u>	<u>488,641</u>
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Reporting unit's covered-employee payroll**	\$ 6,428,313	\$ 6,345,905	\$ 6,096,621
Contributions as a percentage of covered-employee payroll	8.06 %	7.86 %	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, 2020

**Changes of benefit terms:** There were no changes of benefit terms in 2020.

**Changes of assumptions:** Assumption changes are a result of an experience study for the periods 2012 through 2017 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2017 valuation.

HARRISON COMMUNITY SCHOOLS  
Other Supplemental Information  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2020

	Special	Debt Service Funds				Capital Projects Fund		Total
	Revenue Fund							
	Food Service	2009 Debt	2017 Debt	2018 Debt	2020 Debt	2017 Capital Projects	2018 Capital Projects	
<u>Assets</u>								
Cash and investments	\$ 599,928	\$ 78,207	\$ 119,640	\$ 174,011	\$ 231,089	\$ 888	\$ (528)	\$ 1,203,235
Accounts receivable	5,792	0	0	0	0	0	0	5,792
Due from other funds	45,013	0	0	0	0	0	55,750	100,763
Due from other governmental units	135,935	0	0	0	0	0	0	135,935
Inventories	32,517	0	0	0	0	0	0	32,517
Prepaid expenditures	75,000	0	0	0	0	0	0	75,000
Total assets	<u>\$ 894,185</u>	<u>\$ 78,207</u>	<u>\$ 119,640</u>	<u>\$ 174,011</u>	<u>\$ 231,089</u>	<u>\$ 888</u>	<u>\$ 55,222</u>	<u>\$ 1,553,242</u>
<u>Liabilities and Fund Balance</u>								
<u>Liabilities</u>								
Accounts payable	\$ 124,440	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 124,440
Due to other funds	10,580	0	0	0	0	0	0	10,580
Total liabilities	<u>135,020</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>135,020</u>
<u>Fund Balance</u>								
Non-spendable - inventory	32,517	0	0	0	0	0	0	32,517
Non-spendable - prepaid expenditures	75,000	0	0	0	0	0	0	75,000
Restricted for debt service	0	78,207	119,640	174,011	231,089	0	0	602,947
Restricted for capital projects	0	0	0	0	0	888	55,222	56,110
Restricted for food service	651,648	0	0	0	0	0	0	651,648
Total fund balance	<u>759,165</u>	<u>78,207</u>	<u>119,640</u>	<u>174,011</u>	<u>231,089</u>	<u>888</u>	<u>55,222</u>	<u>1,418,222</u>
Total liabilities and fund balance	<u>\$ 894,185</u>	<u>\$ 78,207</u>	<u>\$ 119,640</u>	<u>\$ 174,011</u>	<u>\$ 231,089</u>	<u>\$ 888</u>	<u>\$ 55,222</u>	<u>\$ 1,553,242</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, 2020**

	Special	Debt Service Funds				Capital Projects Fund		Total
	Revenue Fund					2017 Capital	2018 Capital	
	Food Services	2009 Debt	2017 Debt	2018 Debt	2020 Debt	Projects	Projects	
<b>Revenues</b>								
Local sources	\$ 145,132	\$ 964,661	\$ 264,165	\$ 574,458	\$ 229	\$ 43	\$ 4,006	\$ 1,952,694
State sources	38,507	0	0	0	0	0	0	38,507
Federal sources	1,508,199	0	0	0	0	0	0	1,508,199
Interdistrict and other sources	0	0	0	0	0	975	0	975
Total revenues	<u>1,691,838</u>	<u>964,661</u>	<u>264,165</u>	<u>574,458</u>	<u>229</u>	<u>1,018</u>	<u>4,006</u>	<u>3,500,375</u>
<b>Expenditures</b>								
Food services	1,430,096	0	0	0	0	0	0	1,430,096
Business services	0	44	306	88	0	0	0	438
Capital outlay	0	0	0	0	0	0	481,134	481,134
Debt service:								
Principal	0	940,000	0	325,000	0	0	0	1,265,000
Interest and other	0	37,600	307,600	183,000	0	0	0	528,200
Total expenditures	<u>1,430,096</u>	<u>977,644</u>	<u>307,906</u>	<u>508,088</u>	<u>0</u>	<u>0</u>	<u>481,134</u>	<u>3,704,868</u>
Excess (deficiency) of revenues over expenditures	<u>261,742</u>	<u>(12,983)</u>	<u>(43,741)</u>	<u>66,370</u>	<u>229</u>	<u>1,018</u>	<u>(477,128)</u>	<u>(204,493)</u>
<b>Other Financing Sources (Uses)</b>								
Proceeds from bond issuance	0	0	0	0	230,860	0	0	230,860
Operating transfers in	13,380	0	0	0	0	0	108,351	121,731
Operating transfers out	(10,580)	0	0	0	0	(41,898)	0	(52,478)
Issuance costs	0	0	0	0	0	(500)	(1,500)	(2,000)
Total other financing sources (uses)	<u>2,800</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>230,860</u>	<u>(42,398)</u>	<u>106,851</u>	<u>298,113</u>
Net change in fund balance	264,542	(12,983)	(43,741)	66,370	231,089	(41,380)	(370,277)	93,620
Fund balance - beginning of year	494,623	91,190	163,381	107,641	0	42,268	425,499	1,324,602
Fund balance - end of year	<u>\$ 759,165</u>	<u>\$ 78,207</u>	<u>\$ 119,640</u>	<u>\$ 174,011</u>	<u>\$ 231,089</u>	<u>\$ 888</u>	<u>\$ 55,222</u>	<u>\$ 1,418,222</u>

HARRISON COMMUNITY SCHOOLS  
 Other Supplemental Information  
 Schedule of Bonded Indebtedness  
 For the Year Ended June 30, 2020

PURPOSE

The bonds were issued for the purpose of erecting, furnishing and equipping additions to the school buildings; remodeling, equipping and re-equipping and furnishing and refurbishing school buildings; erecting a team facility building on the athletic field; preparing, developing and improving playgrounds, athletic facilities and sites; and paying the cost of issuing the Bonds

DATE OF ISSUE

May 1, 2020

AMOUNT OF ISSUE

\$ 11,660,000

AMOUNT OF REDEEMED

During prior years	\$	0	
During current year		0	0

BALANCE OUTSTANDING - June 30, 2020

\$ 11,660,000

<u>Fiscal Year</u>	<u>Interest Rate</u>	<u>Requirements</u>		
		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	4.00%	\$ 410,000	\$ 478,210	\$ 888,210
2022	4.00%	465,000	478,300	943,300
2023	4.00%	465,000	459,700	924,700
2024	4.00%	465,000	441,100	906,100
2025	4.00%	465,000	422,500	887,500
2026	4.00%	465,000	403,900	868,900
2027	4.00%	465,000	385,300	850,300
2028	4.00%	465,000	366,700	831,700
2029	4.00%	465,000	348,100	813,100
2030	4.00%	465,000	329,500	794,500
2031	4.00%	465,000	310,900	775,900
2032	5.00%	465,000	292,300	757,300
2033	5.00%	465,000	269,050	734,050
2034	4.00%	470,000	245,800	715,800
2035	4.00%	470,000	227,000	697,000
2036	4.00%	470,000	208,200	678,200
2037	4.00%	470,000	189,400	659,400
2038	4.00%	470,000	170,600	640,600
2039	4.00%	470,000	151,800	621,800
2040	4.00%	475,000	133,000	608,000
2041	4.00%	475,000	114,000	589,000
2042	5.00%	475,000	95,000	570,000
2043	5.00%	475,000	71,250	546,250
2044	5.00%	475,000	47,500	522,500
2045	5.00%	475,000	23,750	498,750
		<u>\$ 11,660,000</u>	<u>\$ 6,662,860</u>	<u>\$ 18,322,860</u>

**HARRISON COMMUNITY SCHOOLS**  
**Other Supplemental Information**  
**Schedule of Bonded Indebtedness**  
**For the Year Ended June 30, 2020**

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	\$	270,000	
During current year		325,000	595,000

BALANCE OUTSTANDING - June 30, 2020

\$ 4,000,000

<u>Fiscal Year</u>	<u>Interest Rate</u>	<u>Requirements</u>		
		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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
		\$ 4,000,000	\$ 775,000	\$ 4,775,000

**HARRISON COMMUNITY SCHOOLS**  
**Other Supplemental Information**  
**Schedule of Bonded Indebtedness**  
**For the Year Ended June 30, 2020**

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	\$	200,000	
During current year		0	200,000

BALANCE OUTSTANDING - June 30, 2020

\$ 7,690,000

<u>Fiscal Year</u>	<u>Interest Rate</u>	<u>Requirements</u>		
		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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
		<u>\$ 7,690,000</u>	<u>\$ 4,223,800</u>	<u>\$ 11,913,800</u>

**HARRISON COMMUNITY SCHOOLS**  
**Other Supplemental Information**  
**Schedule of Bonded Indebtedness**  
**For the Year Ended June 30, 2020**

<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	\$ 8,355,000
	During current years	940,000
		<u>9,295,000</u>
<u>BALANCE OUTSTANDING - June 30, 2020</u>		<u><u>\$ 0</u></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 20, 2020

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, 2020 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 20, 2020.

### 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: 2020-001.



Board of Education  
Harrison Community Schools  
October 20, 2020

**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 20, 2020

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, 2020. 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.



Board of Education  
Harrison Community Schools  
October 20, 2020

## ***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, 2020.

## ***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2020-002. Our opinion on each major federal program is not modified with respect to these matters.

Harrison Community Schools' response to the noncompliance 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 compliance and, accordingly, we express no opinion on the response.

## **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.



# WEINLANDER FITZHUGH

Board of Education  
Harrison Community Schools  
October 20, 2020

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, 2020

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

**Financial Statements**

Type of auditor's report issued: Unmodified opinion

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: Unmodified opinion

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>
10.553, 10.555, 10.559	Child Nutrition Cluster

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

Auditee qualified as low-risk auditee?  YES  NO

HARRISON COMMUNITY SCHOOLS  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2020

**SECTION II - Financial Statement Findings**

**2020-001 (Repeat Finding 2019-001)**

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.

HARRISON COMMUNITY SCHOOLS  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2020

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

**2020-002 (Repeat finding 2019-002)**

Program

Nutrition Cluster - National School Breakfast and National School Lunch, U.S. Department of Agriculture, passed through Michigan Department of Education. CFDA # 10.553, 10.555, 10.556 and 10.559.

Criteria

Federal register section 7 CFR Part 210.14b requires School Districts to limit its School Breakfast and Lunch fund net resources to an amount that does not exceed three months of average expenditures.

Condition

The School District's net cash resources exceeded three months of average expenditures at June 30, 2020.

Questioned costs

None

Context

Applicable requirement for School Districts with a food service management company operating service activities.

Effect

Management did not monitor net cash resources and their spend down plan to ensure that they did not exceed three months of average expenditures. The School District's net cash resources were in excess of three months over expenditures by \$327,838.

Cause

Management did not monitor net cash resources and their spend down plan to ensure that they did not exceed three months of average expenditures. The School District's net cash resources were in excess of three months over expenditures by \$327,838.

Recommendation

We recommend that the School District review their Food Service Fund's net cash resources periodically throughout the school year to ensure that the fund will not have an excess of three months of average expenditures at the fiscal year end and that the School District closely monitors their spend down plan with the Michigan Department of Education. The School District should also take this requirement into consideration when preparing the annual budget and any subsequent adjustments to the budget.

Views of the Responsible Officials and Planned Corrective Action

The Superintendent, Business Manager and Food Service Director will meet prior to the end of October 2019 to develop an outline of a purchasing/use of funds plan. This plan will be presented to the Board of Education Finance Committee in November for discussion and modifications. Subsequent to the Finance Committee meeting, the Superintendent, Business Manager and Food Service Director will make any necessary modifications and present the final plan to the Board of Education Finance Committee in December. The final plan will then be presented to the Board of Education at the regular December board meeting for approval. Once the Board of Education has approved the plan, purchasing/use of funds will begin and be completed by June 30, 2020.

HARRISON COMMUNITY SCHOOLS  
Summary Schedule of Prior Year Findings  
For the Year Ended June 30, 2020

**2019-001 and 2019-002**

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, 2020**

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, 2019	Adjustments	Current Year Receipts (Cash Basis)	Current Year Expenditures	Accrued (Deferred) Revenue June 30, 2020
<u>U.S. Department of Education</u>								
Passed through Michigan Department of Education								
ECIA Title I								
Improving Basic Programs								
	84.010							
Project 191530-1819		\$ 1,032,532	\$ 902,099	\$ 433,516	\$ 0	\$ 433,516	\$ 0	\$ 0
Project 201530-1920		1,048,531	0	0	0	554,886	916,406	361,520
			<u>902,099</u>	<u>433,516</u>	<u>0</u>	<u>988,402</u>	<u>916,406</u>	<u>361,520</u>
Title VI-Part B:								
	84.358B							
Project 190660-1819		30,235	8,305	8,305	0	8,305	0	0
Project 200660-1920		49,973	0	0	0	7,375	34,250	26,875
			<u>8,305</u>	<u>8,305</u>	<u>0</u>	<u>15,680</u>	<u>34,250</u>	<u>26,875</u>
Title II-Part A:								
	84.367							
Project 190520-1819		278,734	115,844	71,731	0	71,731	0	0
Project 200520-1920		280,736	0	0	0	70,803	128,544	57,741
			<u>115,844</u>	<u>71,731</u>	<u>0</u>	<u>142,534</u>	<u>128,544</u>	<u>57,741</u>
Title IV-Part A:								
	84.424							
Project 190750-1819		67,160	60,650	31,700	0	31,700	0	0
Project 200750-1920		73,557	0	0	0	18,338	72,715	54,377
			<u>60,650</u>	<u>31,700</u>	<u>0</u>	<u>50,038</u>	<u>72,715</u>	<u>54,377</u>
Total programs passed through MDE			<u>1,086,898</u>	<u>545,252</u>	<u>0</u>	<u>1,196,654</u>	<u>1,151,915</u>	<u>500,513</u>
Passed through Clare Galdwin RESD:								
Handicapped Preschool and School Program, IDEA								
	84.027							
Project 190450-1819		400,860	400,860	94,643	0	94,643	0	0
Project 200450-1920		402,395	0	0	0	296,957	402,395	105,438
			<u>400,860</u>	<u>94,643</u>	<u>0</u>	<u>391,600</u>	<u>402,395</u>	<u>105,438</u>
Total programs passed through Clare Gladwin RESD:			<u>400,860</u>	<u>94,643</u>	<u>0</u>	<u>391,600</u>	<u>402,395</u>	<u>105,438</u>
Total U.S. Department of Education			<u>1,487,758</u>	<u>639,895</u>	<u>0</u>	<u>1,588,254</u>	<u>1,554,310</u>	<u>605,951</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, 2020**

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, 2019</u>	<u>Adjustments</u>	Current Year Receipts <u>(Cash Basis)</u>	Current Year <u>Expenditures</u>	Accrued (Deferred) Revenue <u>June 30, 2020</u>
<b>U.S. Department of Agriculture</b>								
Passed through Michigan Department of Education								
Child Nutrition Cluster:								
National School Breakfast Program	10.553							
Project 191970		\$ 322,016	\$ 262,488	\$ 18,275	\$ 0	\$ 59,528	\$ 41,253	\$ 0
Project 201970		175,591	0	0	0	175,591	175,591	0
			<u>262,488</u>	<u>18,275</u>	<u>0</u>	<u>235,119</u>	<u>216,844</u>	<u>0</u>
Free and Reduced lunches	10.555							
Project 191960		654,194	565,028	37,259	0	126,425	89,166	0
Project 191980		24,049	22,327	927	0	2,649	1,722	0
Project 201960		382,536	0	0	0	382,536	382,536	0
Project 201980		11,742	0	0	0	11,742	11,742	0
COVID-19 Unanticipated closure - Project 200902		623,638	0	0	0	511,907	623,638	111,731
COVID-19 Unanticipated closure - Project 201922		59,743	0	0	0	42,966	59,743	16,777
			<u>587,355</u>	<u>38,186</u>	<u>0</u>	<u>1,078,225</u>	<u>1,168,547</u>	<u>128,508</u>
SFSP Operating	10.559							
Project 190900		15,768	4,514	4,514	0	15,768	11,254	0
Project 191900		1,629	465	465	0	1,629	1,164	0
			<u>4,979</u>	<u>4,979</u>	<u>0</u>	<u>17,397</u>	<u>12,418</u>	<u>0</u>
Non-Cash Assistance (Commodities) Entitlement	10.555	82,291	0	0	0	82,291	82,291	0
<b>Total Child Nutrition Cluster</b>			<u>854,822</u>	<u>61,440</u>	<u>0</u>	<u>1,413,032</u>	<u>1,480,100</u>	<u>128,508</u>
CACFP Meals	10.558							
Project 191920		27,110	25,173	109	0	2,046	1,937	0
Project 192010		1,922	1,787	8	0	143	135	0
Project 201920		21,611	0	0	0	20,443	21,611	1,168
Project 202010		4,416	0	0	0	4,416	4,416	0
			<u>26,960</u>	<u>117</u>	<u>0</u>	<u>27,048</u>	<u>28,099</u>	<u>1,168</u>
<b>Total U.S. Department of Agriculture</b>			<u>881,782</u>	<u>61,557</u>	<u>0</u>	<u>1,440,080</u>	<u>1,508,199</u>	<u>129,676</u>
			<u>\$ 2,369,540</u>	<u>\$ 701,452</u>	<u>\$ 0</u>	<u>\$ 3,028,334</u>	<u>\$ 3,062,509</u>	<u>\$ 735,627</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, 2020**

**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, 2020. 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.