

Hillsdale Community Schools

Financial Report
With Supplemental Information

Year Ended June 30, 2018

Independent Auditors' Reporti - ii

Management's Discussion and Analysis iii-vii

Basic Financial Statements

District-Wide Financial Statements:

Statement of Net Position 1
Statement of Activities 2

Fund Financial Statements:

Governmental Funds:

Balance Sheet 3
Reconciliation of Fund Balances on the Balance Sheet of Governmental Funds to
Net Position of Governmental Activities on the Statement of Net Position 4
Statement of Revenues, Expenditures, and Changes in Fund Balances 5
Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balances of Governmental Funds to the Statement of Activities 6

Fiduciary Funds – Statement of Fiduciary Net Position 7

Notes to Financial Statements8-24

Required Supplementary Information

Budgetary Comparison Schedule - General Fund 25
Schedule of the District's Proportionate Share of the Net Pension Liability of the MPSERS Plan .. 26
Schedule of the District's Pension Contributions to the MPSERS Plan 27
Notes to Required Supplementary Information Pension Schedules 28
Schedule of the District's Proportionate Share of the Net OPEB Liability of the MPSERS Plan 29
Schedule of the District's OPEB Contributions to the MPSERS Plan 30
Notes to Required Supplementary Information OPEB Schedules 31

Federal Awards Supplementary Information Issued Under
Separate Cover



Independent Auditors' Report

Board of Education
Hillsdale Community Schools
Hillsdale, 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 Hillsdale Community Schools, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental 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 auditors' 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 entity'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 entity'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 Hillsdale Community Schools, as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter – Change in Accounting Principle

As discussed in Note 14 to the financial statements, during the year ended June 30, 2018, Hillsdale Community Schools implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 5, 2018 (under separate cover), on our consideration of Hillsdale Community Schools' 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hillsdale Community Schools' internal control over financial reporting and compliance.

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.

September 12, 2018

Hillsdale Community Schools

Management's Discussion and Analysis Year Ended June 30, 2018

Our discussion and analysis of Hillsdale Community Schools' financial performance provides an overview of the School District's financial activities for the fiscal year ended June 30, 2018. The management's discussion and analysis is provided at the beginning of the audit to provide in layman's terms, the past and current position of the School District's financial condition. This summary should not be taken as a replacement for the audit which consists of the financial statements and other supplemental information that presents all the revenues and expenditures by program for all the District's funds.

USING THIS ANNUAL REPORT

The School District's annual report consists of a series of financial statements that show information for the School District as a whole, its funds, and its fiduciary responsibilities. The Statement of Net Position and the Statement of Activities (pages 1 - 2), provide information about the activities of the School District as a whole and present a longer-term view of the School District's finances. Our fund financial statements start on page 3. Our governmental activities statements tell how we financed our services in the short-term, as well as what remains for future spending. Fund financial statements report the School District's operations in more detail than governmental-wide financial statements by providing information about the School District's most significant funds. The remaining statement provides information about activities for which the School District acts solely as an agent for the benefit of student groups.

Reporting the School District as a Whole

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

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

Reporting the School District's Most Significant Funds

The School District's Fund Financial Statements, which begin on page 3, provide detailed information about the School District's most significant funds – not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes other funds to help it control and manage money for particular purposes (like the Food Service Fund) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (like the Building & Site Fund).

Hillsdale Community Schools

Management's Discussion and Analysis Year Ended June 30, 2018

Governmental fund reporting focuses on showing how money flows into and out of the funds and the balances left at year-end that are available for spending in future periods. They are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term* view of the School District's operations and the services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between *governmental activities* (reported in the Statement of Net Position and the Statement of Activities) and *governmental funds* in reconciliations on pages 4 and 6.

The School District as Trustee

The School District is the trustee, or agent, for its student activity funds. All of the School District's agent activities are reported in a separate Statement of Assets and Liabilities – Agency Funds on page 7. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The School District as a Whole

The School District's net position at June 30, 2018 was \$(12,351,227). Of this amount, \$(22,470,523) was unrestricted. Restricted net position is reported separately to show legal constraints that limit the School District's ability to use those assets for day-to-day operations. Below we focus our attention on the net position (TABLE 1) and changes in net position (TABLE 2) of the School District's governmental activities.

TABLE 1 – Net Position
June 30, 2018 and 2017

	<u>2018</u>	<u>2017*</u>
Current assets	\$ 5,000,470	\$ 4,677,892
Non-current assets	<u>9,651,568</u>	<u>10,071,803</u>
Total assets	<u>14,652,038</u>	<u>14,749,695</u>
Deferred outflows of resources	<u>5,086,812</u>	<u>2,644,784</u>
Current liabilities	2,064,796	2,765,996
Non-current liabilities	<u>27,532,886</u>	<u>19,897,518</u>
Total liabilities	<u>29,597,682</u>	<u>22,663,514</u>
Deferred inflows of resources	<u>2,492,395</u>	<u>1,115,168</u>
Net position:		
Invested in capital assets – net of related debt	9,568,921	9,551,149
Restricted for capital projects	550,375	476,883
Unrestricted	<u>(22,470,523)</u>	<u>(16,412,235)</u>
Total net position	<u>\$ (12,351,227)</u>	<u>\$ (6,384,203)</u>

*The table does not include the effect of the implementation of GASB 75 on the prior year figures.

Hillsdale Community Schools

Management's Discussion and Analysis Year Ended June 30, 2018

The School District as a Whole (Concluded)

TABLE 2 – Changes in Net Position

Years ended June 30, 2018 and 2017

	2018	2017*
Program Revenue		
Charges for Services	\$ 277,397	\$ 255,003
Operating Grants and Contributions	2,782,369	3,148,851
General Revenue		
Property Taxes-general purposes	1,911,841	1,950,464
Property Taxes-capital projects	627,008	621,763
State School Aid	9,360,978	8,825,258
Miscellaneous	491,108	194,368
Total Revenue	<u>\$ 15,450,701</u>	<u>\$ 14,995,707</u>
Expenses		
Instruction	\$ 8,309,027	\$ 8,243,178
Support Services	4,376,320	4,464,383
Food Service	840,193	858,178
Community Services	9,579	13,354
Capital Outlay	108,803	20,636
Other	-	558
Depreciation – Unallocated	713,515	742,609
Interest on Long-Term Debt	5,915	9,126
Total Expenses	<u>\$ 14,363,352</u>	<u>\$ 14,352,022</u>
 INCREASE (DECREASE) IN NET POSITION	 <u>\$ 1,087,349</u>	 <u>\$ 643,685</u>

*The table does not include the effect of the implementation of GASB 75 on the prior year figures.

As shown above, the cost of all our governmental activities this year was \$14,363,352. However, the amount that our taxpayers ultimately financed for those activities through school property taxes was \$2,538,849. The remainder of the cost was paid by charges for services, State Aid and use of prior years' accumulation of funds.

There were several reasons for the change in the financial condition from 2017 – 2018:

- Change in pension liability
- Increase in pupil count
- Continued monitoring of costs
- Sale of vacant school building

MAJOR GOVERNMENTAL FUNDS BUDGETING AND OPERATING HIGHLIGHTS

The School District's budgets are prepared according to Michigan law. The most significant budgeted fund is the General Fund. During the fiscal year ended June 30, 2018, the School District amended the General Fund Budget two times.

Hillsdale Community Schools

Management's Discussion and Analysis Year Ended June 30, 2018

General Fund

The actual revenue and other financing sources of the General Fund was \$14,001,784, above the original budget estimates of \$13,188,818 and above the final amended budget of \$13,969,608. Enrollment increased modestly from the previous year. As the district's budget was based on smaller enrollment projections, the actual revenue exceeded what was anticipated. The district benefited from the sale of a vacant school building for \$390,000. This represents a one-time increase in revenue for the current fiscal year.

The actual expenditures of the General Fund were \$13,072,593, below the original budget estimates of \$13,371,833 and below the final amended budget of \$13,254,814.

CAPITAL ASSET AND DEBT ADMINISTRATION

At the end of fiscal year 2018, the School District had \$28,266,289 invested in land and buildings, furniture and equipment, and vehicles. We have estimated that these assets have depreciated by \$18,614,721 through June 30, 2018; therefore, we currently have net book value of \$9,651,568.

Total additions for consisted of a new dishwasher for the high school, several roofing projects, athletic field improvements and two new buses.

	2018	2017
Land	\$ 82,434	\$ 82,434
Buildings and improvements	21,196,244	21,129,570
Furniture and equipment	5,161,145	5,118,279
Vehicles	1,594,815	1,411,075
Infrastructure	231,651	231,651
Less: accumulated depreciation	<u>(18,614,721)</u>	<u>(17,901,206)</u>
	<u>\$ 9,651,568</u>	<u>\$ 10,071,803</u>

At June 30, 2018, the School District had \$82,647 in general obligation debt.

	2018	2017
Notes and leases	\$ 82,647	\$ 170,654
Bonds	<u>-</u>	<u>350,000</u>
	<u>\$ 520,654</u>	<u>\$ 520,654</u>

Hillsdale Community Schools

Management's Discussion and Analysis Year Ended June 30, 2018

FACTORS BEARING ON THE DISTRICT'S FUTURE

Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, was implemented in fiscal year 2018. The purpose of this standard is to improve accounting and financial reporting for other postemployment benefits (OPEB). It established standards for measuring and recognizing OPEB liabilities, OPEB expenses, and the related deferred inflows and deferred outflows of resources. Implementation of this standard requires recording of the full unfunded portion of the District's OPEB plan administered through the Michigan Public School Employees' Retirement System (MPERS). The unfunded OPEB liability has been established through actuarial valuations and will be amortized over a 22 year period beginning with the plan's fiscal year-end of September 30, 2017. With the recording of this OPEB liability and the previous recorded pension liability, the liabilities of the District exceeded its assets. The balance of the net position at the close of the most recent fiscal year was \$(12,351,227) (negative net position).

The Bailey Early Childhood Center continues to have a positive impact on the preparedness for kindergarten and for kindergarten enrollment in the upcoming school year. There were again changes in the management components of the GSRP program through the ISD which caused for delays in enrollment into the pre-school classes funded by GSRP. This did result in the district reducing a section/classroom of pre-school programming. As a result, the general fund had a slightly larger burden of operational and staffing costs at that level of programming.

The district was recognized by Bridge Magazine as an "Academic State Champions" school for the amount of growth students earned in reading achievement test scores from grades 3-8. The students in the district were a Top 10 school for performance gains. During a five year period, the students gained more than five years of annual achievement growth.

The academic success of students within the district continued its upward trend at the secondary level as well. US News and World Report ranked Hillsdale High School as one of the best high schools in America for college and career readiness; this is the fourth year of earning a national ranking and the third consecutive Silver Medal award.

The student achievement growth at the elementary/middle school combined with the sustained achievement at the secondary has resulted in some students transferring into the district from nearby school systems. This explains how the district showed a slight increase in enrollment, while the county actually experienced an overall decrease in K-12 enrollment.

The school district continued to work with outside agencies like Community Action Agency to provide transportation services to their HeadStart students and to rent one classroom space for those same programs at the Early Childhood Center. Additionally, the transportation agreements, food service budgets, and special education program agreements with the ISD resulted in positive revenue contributions to the district's budget.

The combination of increased enrollment, cooperative service agreements, and sale of property were all significant factors contributing to an increase in the general fund balance. The school district has been intentional about cost containment in order to stabilize the financial position of the district.

CONTACTING THE SCHOOL DISTRICT FINANCIAL MANAGEMENT

This report is designed to give an overview of the financial conditions of the Hillsdale Community Schools. If you have any questions about this report or need further information, you may contact the Superintendent's Office by phone at 517-437-4401 located at 30 S. Norwood Avenue, Hillsdale, Michigan 49242.

Hillsdale Community Schools

Statement of Net Position

June 30, 2018

	Governmental Activities
Assets:	
Cash and investments	\$ 2,698,832
Receivables	18,290
Due from other governmental units	2,207,591
Inventories	13,953
Prepaid expenses	61,804
Capital assets:	
Cost of capital assets	28,266,289
Less: accumulated depreciation	(18,614,721)
Net capital assets	9,651,568
Total assets	14,652,038
Deferred Outflows of Resources:	
Pension related	4,629,640
OPEB related	457,172
Total deferred outflows of resources	5,086,812
Liabilities:	
Accounts payable and accrued expenses	1,469,511
Unearned revenue	595,285
Long-term liabilities:	
Due within one year:	
Bonds and notes payable	41,167
Due in more than one year:	
Bonds and notes payable	41,480
Compensated absences	51,799
Net pension liability	20,415,791
Net OPEB liability	6,982,649
Total liabilities	29,597,682
Deferred Inflows of Resources:	
Pension related	2,256,330
OPEB related	236,065
Total deferred inflows of resources	2,492,395
Net Position:	
Invested in capital assets, net of related debt	9,568,921
Restricted for:	
Capital projects	550,375
Unrestricted	(22,470,523)
Total net position	\$ (12,351,227)

Hillsdale Community Schools

Statement of Activities

Year Ended June 30, 2018

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenue</u>		<u>Governmental Activities Net (Expenses) Revenues and Change in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Primary Government				
Governmental activities:				
Instruction	\$ 8,309,027	\$ 38,783	\$ 1,807,847	\$ (6,462,397)
Support services	4,376,320	60,616	324,151	(3,991,553)
Food service activities	840,193	177,998	650,371	(11,824)
Community services	9,579	-	-	(9,579)
Interest on long-term debt	5,915	-	-	(5,915)
Capital outlay	108,803	-	-	(108,803)
Depreciation (unallocated)	713,515	-	-	(713,515)
Total governmental activities	<u>\$ 14,363,352</u>	<u>\$ 277,397</u>	<u>\$ 2,782,369</u>	<u>(11,303,586)</u>
 General Revenues:				
Taxes:				
Property taxes, levied for general purposes				1,911,841
Property taxes, levied for capital projects				627,008
State aid not restricted to specific purposes				9,360,978
Unrestricted investment earnings				13,559
Other				477,549
Total general revenues				<u>12,390,935</u>
Change in Net Position				1,087,349
Net Position - Beginning of Year				<u>(13,438,576)</u>
Net Position - End of Year				<u>\$ (12,351,227)</u>

Hillsdale Community Schools

Balance Sheet
Governmental Funds
June 30, 2018

	<u>General Fund</u>	<u>Building & Site Fund</u>	<u>Nonmajor Food Service Fund</u>	<u>Total Governmental Funds</u>
<u>Assets</u>				
Cash and investments	\$ 2,017,070	\$ 551,999	\$ 129,763	\$ 2,698,832
Due from other funds	64,189	-	-	64,189
Receivable from other governments	2,202,340	-	5,251	2,207,591
Other receivables	7,288	365	10,637	18,290
Inventories	-	-	13,953	13,953
Prepaid expenditures	13,802	-	48,002	61,804
Total assets	<u>\$ 4,304,689</u>	<u>\$ 552,364</u>	<u>\$ 207,606</u>	<u>\$ 5,064,659</u>
 <u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable	\$ 34,105	\$ 1,989	\$ 8,960	\$ 45,054
Due to other funds	-	-	64,189	64,189
Salaries payable and related	1,388,472	-	35,985	1,424,457
Unearned revenue	589,076	-	6,209	595,285
Total liabilities	<u>2,011,653</u>	<u>1,989</u>	<u>115,343</u>	<u>2,128,985</u>
 Fund Balances:				
Nonspendable:				
Inventories	-	-	13,953	13,953
Prepaid expenditures	13,802	-	48,002	61,804
Restricted:				
Capital projects	-	550,375	-	550,375
Food services	-	-	30,308	30,308
Committed	624,500	-	-	624,500
Assigned	162,412	-	-	162,412
Unassigned	1,492,322	-	-	1,492,322
Total fund balances	<u>2,293,036</u>	<u>550,375</u>	<u>92,263</u>	<u>2,935,674</u>
Total liabilities and fund balances	<u>\$ 4,304,689</u>	<u>\$ 552,364</u>	<u>\$ 207,606</u>	<u>\$ 5,064,659</u>

Hillsdale Community Schools

Reconciliation of Fund Balances on the Balance Sheet of Governmental Funds to
Net Position of Governmental Activities on the Statement of Net Position
June 30, 2018

Total Fund Balances - Governmental Funds \$ 2,935,674

Amounts reported for governmental activities in the Statement of Net Position are different because:

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

The cost of capital assets is	\$ 28,266,289	
Accumulated depreciation is	<u>(18,614,721)</u>	9,651,568

Long-term liabilities and related deferred outflows and inflows are not due and payable in the current period and are not reported in the funds.

Notes payable	(82,647)	
Compensated absences	(51,799)	
Deferred outflows related to net pension liability	4,629,640	
Deferred outflows related to net OPEB liability	457,172	
Deferred inflows related to net pension liability	(2,256,330)	
Deferred inflows related to net OPEB liability	(236,065)	
Net pension liability	(20,415,791)	
Net OPEB liability	<u>(6,982,649)</u>	(24,938,469)

Total Net Position - Governmental Activities \$ (12,351,227)

Hillsdale Community Schools
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2018

	<u>General Fund</u>	<u>Building & Site Fund</u>	<u>Nonmajor Food Service Fund</u>	<u>Total Governmental Funds</u>
Revenues:				
Local sources	\$ 2,278,255	\$ 632,069	\$ 222,508	\$ 3,132,832
State sources	10,770,625	-	31,591	10,802,216
Federal sources	511,915	-	618,780	1,130,695
Interdistrict and other	51,489	-	-	51,489
Total revenues	<u>13,612,284</u>	<u>632,069</u>	<u>872,879</u>	<u>15,117,232</u>
Expenditures:				
Instruction	8,341,452	-	-	8,341,452
Support services	4,600,866	-	-	4,600,866
Community services	9,579	-	-	9,579
Food service activities	-	-	840,984	840,984
Other	30,274	6,079	-	36,353
Debt service:				
Principal	88,013	350,000	-	438,013
Interest and other charges	2,409	3,500	-	5,909
Capital outlay	-	204,398	-	204,398
Total expenditures	<u>13,072,593</u>	<u>563,977</u>	<u>840,984</u>	<u>14,477,554</u>
Revenues Over (Under) Expenditures	<u>539,691</u>	<u>68,092</u>	<u>31,895</u>	<u>639,678</u>
Other Financing Sources (Uses):				
Proceeds from sale of capital assets	389,500	-	-	389,500
Transfers in	-	-	6,500	6,500
Transfers out	(6,500)	-	-	(6,500)
Total other financing sources (uses)	<u>383,000</u>	<u>-</u>	<u>6,500</u>	<u>389,500</u>
Net Changes in Fund Balances	922,691	68,092	38,395	1,029,178
Fund Balances - Beginning of Year	<u>1,370,345</u>	<u>482,283</u>	<u>53,868</u>	<u>1,906,496</u>
Fund Balances - End of Year	<u>\$ 2,293,036</u>	<u>\$ 550,375</u>	<u>\$ 92,263</u>	<u>\$ 2,935,674</u>

Hillsdale Community Schools

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2018

Net Change in Fund Balances - Total Governmental Funds \$ 1,029,178

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities, these costs are allocated over their estimated useful lives as depreciation.

Depreciation expense	\$ (713,515)	
Capital outlay	<u>328,280</u>	
		(385,235)

Governmental funds report the entire net sales price (proceeds) from the sale of assets as revenue because it provides current financial resources. In contrast, the Statement of Activities reports only the gain or loss on the sale of assets. Thus, the change in net position differs from the change in fund balance by the net book value.

Net book value of assets sold		(35,000)
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Governmental funds report bond proceeds as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of bond principal as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. This is the amount by which repayments exceeded proceeds.

Repayments to bond and note holders	438,007	
Change in compensated absences	<u>5,123</u>	
		459,869

Governmental funds report the required pension and OPEB contributions for the District's fiscal year ended June 30 as expenditures. The Statement of Activities reports the fully accrued pension and OPEB expenses based upon a September year-end to coincide with the State of Michigan's fiscal year.

Changes in pension related liabilities and deferrals	(274,294)	
Changes in OPEB related liabilities and deferrals	<u>292,831</u>	
		18,537

Change in Net Position of Governmental Activities \$ 1,087,349

Hillsdale Community Schools
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2018

	<u>Agency Fund</u>
Assets:	
Cash and cash equivalents	\$ 187,286
Liabilities:	
Due to student groups	\$ 187,286

Hillsdale Community Schools
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies

The basic financial statements of Hillsdale Community Schools (the “School District” or “District”) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District’s accounting policies are described below.

Reporting Entity

The School District is governed by an elected seven-member 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. Based on the application of the criteria, the District does not contain any component units.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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 non-fiduciary activities of the primary government. 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 segment 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 unrestricted items are not included as program revenues but instead 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.

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.

It is the District’s policy to allocate resource outlays first to restricted net position with the remainder allocated to unrestricted net position.

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

Hillsdale Community Schools
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

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 revenues to be available if 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, severance pay, 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.

The fiduciary fund statement is also reported using the economic resources measurement focus and the accrual basis of accounting.

The School District reports the following major governmental funds:

General Fund – The General Fund is the School District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

Building & Site Fund – The Building & Site Fund is used to record tax receipts or other revenue and the disbursement of monies specifically designated for acquiring new school sites, buildings, equipment, and for remodeling.

Additionally, the government reports the following fund types:

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes (not including expendable trusts or major capital projects). The Special Revenue Fund maintained by the District is the Food Service Fund.

Fiduciary Funds – Fiduciary Funds are used to account for assets held by the District in a trustee capacity or as an agent. Fiduciary Fund net assets and results of operations are not included in the district-wide statements.

The agency funds are custodial in nature (assets equal liabilities) and do not involve measurements of results of operations. The District presently maintains a Student Activities Fund to record the transactions of student and parent groups for school-related purposes. The funds are segregated and held in trust.

Hillsdale Community Schools
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Revenue, Assets, Liabilities, and Net Position or Equity

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

The State portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2017 to August 2018. The unpaid portion at June 30th is reported as due from other governmental units.

The 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 unearned revenue. Other categorical funding is recognized when the appropriation is received.

Property Taxes - Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2018, the District levied the following amounts per \$1,000 of assessed valuation:

General Fund – non-primary residence	18.0000
General Fund – commercial personal property	6.0000
Building & Site Fund	1.9976

Tax abatements provided to property tax payers, if any, were not significant, and thus, no disclosure was deemed required in accordance with GASB Statement No. 77, *Tax Abatement Disclosures*.

Deposits and Investments – Cash and cash equivalents include cash on hand, demand deposits, and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and GASB Statement No. 40, *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the District intends to hold the investment until maturity. Accordingly, investments in bankers' acceptances and commercial paper are recorded at amortized cost.

Hillsdale Community Schools
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Revenue, Assets, Liabilities, and Net Position or Equity (Continued)

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

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.” Property tax and other trade receivables are shown net of an allowance for uncollectible amounts. The District has determined the uncollectible amounts are immaterial and no provision has been recorded.

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 are 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. The government defines capital assets as assets with an initial individual cost of \$5,000 or greater and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated 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.

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

Buildings and improvements	15-50 years
Infrastructure	20 years
Buses and other vehicles	5-10 years
Furniture and equipment	5-10 years

Compensated Absences - The District reports a liability for compensated absences which consists of unpaid, accumulated sick leave balances. The liability has been calculated using the vesting method in which leave amounts for employees who are currently eligible to receive termination payments are included.

Hillsdale Community Schools
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Revenue, Assets, Liabilities, and Net Position or Equity (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. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed as incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Deferred Outflows/Inflows of Resources – In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. Debt issued as well as premiums received on debt issuances are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

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 represents a consumption of net position or fund balance that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The School District currently reports deferred outflows of resources related to deferred pension and OPEB plan expenses. Deferred pension and OPEB plan expenses are recognized in the applicable plan years. The District also currently reports deferred outflows of resources from pension and OPEB payments made subsequent to the measurement date to be recognized as the corresponding time lags are met.

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 represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The District currently reports deferred inflows of resources related to its pension and OPEB plan earnings. These future resources will be amortized and recognized over a time period established by the actuary and relate to differences between actuarial estimates and actual results.

Defined Benefit Pension Plan – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Michigan Public Employees' Retirement System (MPSERS) and additions to/deductions from MPSERS fiduciary net position have been determined on the same basis as they are reported by MPSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the plan benefit terms. Related plan investments are reported at fair value. See Note 10 for detailed information.

Postemployment Benefits Other Than Pensions – For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Michigan Public Employees' Retirement System (MPSERS) and additions to/deductions from MPSERS fiduciary net position have been determined on the same basis as they are reported by MPSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Related investments are reported at fair value. See Note 10 for detailed information.

Hillsdale Community Schools
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Revenue, Assets, Liabilities, and Net Position or Equity (Continued)

Fund Equity – The District has implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. In accordance with this guidance, fund balances of governmental funds are categorized according to five defined categories of fund balance. These categories consist of *nonspendable* amounts which are not in spendable form or are legally or contractually required to be maintained intact; *restricted* amounts that are constrained for specific purposes set by external parties or law; *committed* amounts that are constraints set by the highest decision making authority (the School Board) through adoption of a resolution and may only be removed by the School Board through a rescindment resolution; *assigned* amounts that have an intended purpose but require no formal specific action; and *unassigned* amounts which are the residual of the other categories and have no specific purpose.

It is the District's policy to generally use fund balance in order according to the hierarchy of fund balance categories, from restricted down to unassigned.

Use of Estimates - The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Note 2 – Stewardship, Compliance, and Accountability

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriations lapse at fiscal year-end. The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplemental information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the *Uniform Budgeting and Accounting Act* (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, for the General Fund are noted in the required supplemental information section.
4. The Superintendent is authorized to transfer budgeted amounts between major expenditures functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.
6. The budget was amended during the year with supplemental appropriations, the last one approved prior to fiscal year-end.

Hillsdale Community Schools
Notes to Financial Statements

Note 3 – Deposits and Investments

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

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash and cash equivalents	\$ 2,698,832	\$ 187,286	\$ 2,886,118

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

Deposits (checking and savings accounts)	\$ 2,886,018
Petty cash and cash on hand	100
Total	\$ 2,886,118

Investment and Deposit Risk – The District's cash and investments are subject to several types of risk, as noted below.

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. The District requires that financial institutions be evaluated and only those with an acceptable risk level are used for the District's deposits for custodial credit risk. At year-end, the District's deposit balance of approximately \$3,086,000 had \$2,586,000 of bank deposits that were uninsured and uncollateralized.

Custodial Credit Risk – Investments – Custodial credit risk of investments is the risk that, in the event of the failure of the counterparty, the 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 District does not have an investment policy for custodial credit risk.

Interest Rate Risk – State law limits the allowable investments and the maturities of some of the allowable investments. The District's investment policy does not have specific limits in excess of State law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk – State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers' acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools. See Note 1 for a full description of allowed investments. The District's investment policy does not further limit its investment choices.

Note 4 – Receivables

Receivables at year end totaled \$2,225,881 and consist mainly of amounts due from the Michigan Department of Education for State aid and federal grants.

Hillsdale Community Schools
Notes to Financial Statements

Note 5 – Capital Assets

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Year-End Balance</u>
Capital assets not being depreciated:				
Land	\$ 82,434	\$ -	\$ -	\$ 82,434
Subtotal	<u>82,434</u>	<u>-</u>	<u>-</u>	<u>82,434</u>
Capital assets being depreciated:				
Buildings and improvements	21,129,570	101,674	35,000	21,196,244
Infrastructure	231,651	-	-	231,651
Buses and other vehicles	1,411,075	183,740	-	1,594,815
Furniture and equipment	5,118,279	42,866	-	5,161,145
Subtotal	<u>27,890,575</u>	<u>328,280</u>	<u>35,000</u>	<u>28,183,855</u>
Accumulated depreciation:				
Buildings and improvements	11,626,107	627,094	-	12,253,201
Infrastructure	182,620	11,582	-	194,202
Buses and other vehicles	1,096,899	58,245	-	1,155,144
Furniture and equipment	4,995,580	16,594	-	5,012,174
Subtotal	<u>17,901,206</u>	<u>713,515</u>	<u>-</u>	<u>18,614,721</u>
Net capital assets being depreciated	<u>9,989,369</u>	<u>(385,235)</u>	<u>35,000</u>	<u>9,569,134</u>
Net capital assets	<u>\$ 10,071,803</u>	<u>\$ (385,235)</u>	<u>\$ 35,000</u>	<u>\$ 9,651,568</u>

Depreciation for the current year totaled \$713,515. The District determined that it was impractical to allocate depreciation to various governmental activities as the assets serve multiple functions.

Note 6 – Interfund Receivables, Payables and Transfers

The District reports interfund balances between some of its funds. The sum of all balances presented in the table below agrees with the sum of interfund balances presented in the statements of net position/balance sheet for governmental funds. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

The composition of interfund balances is as follows:

	<u>Due To:</u>
	<u>General</u>
	<u>Fund</u>
Due From:	
Food Service Fund	\$ <u>64,189</u>

No transfer was made from the Food Service Fund to the General Fund for the current year to cover the indirect costs; however, \$6,500 was transferred from the General Fund to the Food Service Fund to cover expenditures allowable under a state grant program.

Hillsdale Community Schools
Notes to Financial Statements

Note 7 – Unearned Revenue

Governmental funds report unearned revenue in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the components of unearned revenue are as follows:

Grant and categorial aid payments received prior to meeting all eligibility requirements	\$ 587,116
Food service deposits	6,209
Other	<u>1,960</u>
	<u><u>\$ 595,285</u></u>

Note 8 – Long-Term Debt

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Activity is summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities:					
Bonds payable	\$ 350,000	\$ -	\$ 350,000	\$ -	\$ -
Notes payable	170,654	-	88,007	82,647	41,167
Compensated absences	73,661	-	21,862	51,799	-
Total governmental activities	<u>\$ 594,315</u>	<u>\$ -</u>	<u>\$ 459,869</u>	<u>\$ 134,446</u>	<u>\$ 41,167</u>

Annual debt service requirements on the above governmental note obligations are as follows:

	Governmental Activities		
	Principal	Interest	Total
2019	\$ 41,167	\$ 1,113	\$ 42,280
2020	41,480	559	42,039
Total	<u>\$ 82,647</u>	<u>\$ 1,672</u>	<u>\$ 84,319</u>

Long-term notes payable consist of:

Note payable – County National Bank, secured by bus; payable in annual installments of \$18,313 plus interest at a rate of 1.74%; matures January 2020	\$ 35,679
Note payable – County National Bank, secured by bus; payable in annual installments of \$23,484 plus interest at a rate of 1.03%; matures March 2020	<u>46,968</u>
	<u><u>\$ 82,647</u></u>

Hillsdale Community Schools
Notes to Financial Statements

Note 9 – Committed and Assigned Fund Balance

Portions of fund equity are segregated for specific future use and are, therefore, not available for future general appropriations or expenditure. Assigned fund balance represents those amounts that are expected to be used to cover expenditures that exceed revenue in the subsequent year. Fund balance commitments represent those amounts that are segregated by Board directive for future use as follows:

General Fund

Committed:	
Curriculum	\$ 180,000
Truck maintenance	20,000
Bus	35,000
Capital projects	389,500
Total committed	<u>\$ 624,500</u>

Note 10 – Risk Management

The School District is exposed to various risks of loss related torts; theft of, damage to, and destruction of assets; errors and omissions; employee injuries and natural disasters. The District participates in a distinct pool of educational institutions within the State of Michigan for self-insuring workers' disability compensation. The pool is considered a public entity risk pool. The District pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said year, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The pool maintains reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The District has not been informed of any special assessments being required.

The School District has purchased commercial insurance for other risks of loss, including property and casualty, errors and omissions, fleet, and employee health and accident insurance. Settled claims relating to the commercial insurance did not exceed the amount of insurance coverage in any of the past three fiscal years.

Note 11 – Defined Benefit Pension Plan and Postemployment Benefits Other Than Pensions

Organization

Pension/OPEB Plan Description – The School District participates in the Michigan Public School Employees' Retirement System ("MPSERS" or "the System"), a State-wide, cost-sharing, multiple-employer defined benefit public employee retirement plan governed by the State of Michigan. The System's pension plan was established by the State to provide retirement, survivor, and disability benefits to public school employees and their beneficiaries, and covers substantially all employees of the School District. There are currently approximately 700 participating employers in the System which meets the definition of a qualified pension trust fund under Section 401(a) of the Internal Revenue Code. In addition, the System's health plan provides postemployment healthcare benefits to all retirees and beneficiaries as an elective option including health, prescription drug, dental, and vision coverage.

The System was originally created under Public Act 136 of 1945, recodified, and currently operates under the provisions of Public Act 300 of 1980, as amended. Section 25 of this Act establishes a governing board and its authority to promulgate or amend the provisions of the System. The board consists of twelve members – eleven appointed by the Governor plus the State Superintendent of Instruction, who serves as an ex-officio member.

Hillsdale Community Schools
Notes to Financial Statements

Note 11 – Defined Benefit Pension Plan and Postemployment Benefits Other Than Pensions (Continued)

Organization (Continued)

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

The System's financial statements are included as a pension and other employee benefit trust fund in the State of Michigan Comprehensive Annual Financial Report and are available on the ORS website at www.michigan.gov/orsschools. Information provided in this report includes financial data, actuarial assumptions data, and detailed information about the pension/OPEB plan's fiduciary net position.

Pension Benefits Provided – Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Depending on the plan option selected, member retirement benefits for DB plan members are determined by final average compensation, years of service, and a pension factor ranging from 1.25% to 1.50%. 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.

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

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

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

Hillsdale Community Schools
Notes to Financial Statements

Note 11 – Defined Benefit Pension Plan and Postemployment Benefits Other Than Pensions (Continued)

Pension Plan Contributions – Public Act 300 of 1980, as amended, requires contributions from both the participating employers and the plan members. The School District, as a participating employer, is required to contribute amounts necessary to finance the coverage of pension benefits of active and retired members. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature. Under these provisions, each school district's contribution is expected to finance the costs of benefits earned by employees (plan members) during the year, with an additional amount paid in to finance a portion of the unfunded accrued liability.

The System is set up with seven different benefit options which are available to plan members (employees) based on date of hire. Depending on the plan selected, plan member contributions range from 0% up to 7% of gross wages. Plan members electing into the defined contribution plan are not required to make additional contributions.

The School District's contributions are determined based on employee elections. Contribution rates are adjusted annually by ORS. For the reported year, the rates ranged from 15.27% to 19.03% for the period of July 1, 2017 through September 30, 2017 and 13.54% to 19.74% for the period of October 1, 2017 through June 30, 2018.

The District's required and actual contributions to the pension plan for the year ended September 30, 2017 were \$1,847,858. The District's required and actual pension contributions include an allocation of \$587,840 in revenue received from the State of Michigan, and remitted to the System, to fund the MPSERS unfunded actuarial liability (UAAL) stabilization rate for the year ended September 30, 2017.

OPEB Contributions – OPEB contributions are also subject to law under Public Act 300 of 1980, as amended, and the provisions may be amended only by action of the State Legislature. Employers are required to contribute amounts necessary to finance the coverage of active and retired members.

Employer OPEB contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2016 valuation will be amortized over a 20-year period for the 2017 fiscal year.

OPEB contribution rates in effect for the fiscal year 2017 were 3% for members under the Premium Subsidy option with a corresponding 5.91% contribution from employers and 0% for members under the Personal Healthcare Fund with a corresponding 5.69% employer contribution.

Required contributions to the OPEB plan from the District were \$613,890 for the year ended September 30, 2017. The District's required and actual OPEB contributions include an allocation of \$218,746 in revenue received from the State of Michigan, and remitted to the System, to fund the MPSERS unfunded actuarial liability (UAAL) stabilization rate for the year ended September 30, 2017.

Hillsdale Community Schools
Notes to Financial Statements

Note 11 – Defined Benefit Pension Plan and Postemployment Benefits Other Than Pensions (Continued)

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

Proportionate Share of School District’s Net Pension Liability - At June 30, 2018, the District reported a liability of \$20,415,791 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2016. The District’s proportionate share of the net pension liability was determined by dividing each employer’s statutorily required pension contributions to the System during the measurement period by the percent of statutorily required pension contributions from all applicable employers during the measurement period. At September 30, 2017, the District’s proportionate share was .07878210 percent, a decrease of .00143366 percent from its proportion measured as of September 30, 2016.

Pension Expense - For the year ended June 30, 2018, the School District recognized pension expense of \$2,056,465, exclusive of payments to fund the MPSERS UAAL stabilization rate.

Proportionate Share of School District’s Net OPEB Liability - At June 30, 2018, the District reported a liability of \$6,982,649 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 30, 2016. The District’s proportionate share of the net OPEB liability was determined by dividing each employer’s statutorily required OPEB contributions to the System during the measurement period by the percent of statutorily required OPEB contributions from all applicable employers during the measurement period. At September 30, 2017, the District’s proportionate share was .07885124 percent.

OPEB Expense - For the year ended June 30, 2018, the School District recognized OPEB expense of \$467,118 exclusive of payments to fund the MPSERS UAAL stabilization rate.

Deferred Outflows and Deferred Inflows - At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions and OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>		<u>Deferred Inflows of Resources</u>	
	<u>Pension</u>	<u>OPEB</u>	<u>Pension</u>	<u>OPEB</u>
Difference between expected and actual experience	\$ 177,427	\$ -	\$ 100,176	\$ 74,345
Changes of assumptions	2,236,712	-	-	-
Net difference between projected and actual earnings on pension/OPEB plan investments	-	-	976,009	161,720
Changes in proportion and differences between District contributions and proportionate share of contributions	278,459	430	352,528	-
District contributions subsequent to the measurement date	1,937,042	456,742	827,617	-
Total	<u>\$ 4,629,640</u>	<u>\$ 457,172</u>	<u>\$ 2,256,330</u>	<u>\$ 236,065</u>

\$1,937,042 reported as deferred outflows of resources related to pensions resulting from District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

Hillsdale Community Schools
Notes to Financial Statements

Note 11 – Defined Benefit Pension Plan and Postemployment Benefits Other Than Pensions (Continued)

Pension/OPEB Liabilities, Pension/OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions/OPEB (Continued)

Deferred Outflows and Deferred Inflows (Continued)

\$456,742 reported as deferred outflows of resources related to OPEB resulting from District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019.

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

Year Ended	Pension	OPEB
<u>June 30</u>	<u> </u>	<u> </u>
2019	\$ 312,269	\$ (56,950)
2020	653,993	(56,950)
2021	301,445	(56,950)
2022	(3,822)	(56,950)
2023	-	(7,835)

Payables to the Pension/OPEB Plan - The District reported an accrued pension/OPEB plan payable at June 30, 2018 of \$181,325. This amount represents employee withholdings and the employer amount payable for wages earned at June 30, 2018 but not yet paid.

Actuarial Assumptions

Actuarial Valuations and Assumptions - Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

A summary of actuarial assumptions as of the latest actuarial valuation follows:

Valuation date	September 30, 2016 (September 30, 2015 for OPEB)
Actuarial cost method	Entry age, normal
Wage inflation rate	3.5%
Investment rate of return:	
MIP and Basic plans (non-hybrid)	7.5%
Pension Plus Plan (hybrid)	7.0%
Projected salary increases	3.5 – 12.3%, including wage inflation at 3.5%
Healthcare cost trend rate	7.5% Year 1 graded to 3.5% Year 12
Cost of living pension adjustments	3.0% annual non-compounded for MIP members
Mortality	RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

Hillsdale Community Schools
Notes to Financial Statements

Note 11 – Defined Benefit Pension Plan and Postemployment Benefits Other Than Pensions (Continued)

Actuarial Assumptions (Continued)

Notes:

- Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension/OPEB liability as of September 30, 2017 is based on the results of an actuarial valuation date of September 30, 2016, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years – 4.5188 for pension plan employers and 5.4744 for OPEB plan employers.
- Recognition period for assets in years is 5.0000.
- Full actuarial assumptions are available in the 2017 MPSERS Comprehensive Annual Financial Report found on the ORS website at www.michigan.gov/orsschools.

Long-Term Expected Rate of Return on Plan Assets – The long-term expected rate of return on pension/OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension/OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of arithmetic real rates of return for each major asset class included in the pension/OPEB plan’s target asset allocation as of September 30, 2017, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return*</u>
Domestic equity pools	28.0%	5.6%
Alternative investment pools	18.0%	8.7%
International equity	16.0%	7.2%
Fixed income pools	10.5%	(0.1)%
Real estate and infrastructure pools	10.0%	4.2%
Absolute return pools	15.5%	5.0%
Short-term investment pools	2.0%	(0.9)%
Total	<u>100.0%</u>	

*Long-term rates of return are net of administrative expenses and 2.3% inflation.

Rate of Return – For the fiscal year ended September 30, 2017, the annual money-weighted rate of return on pension/OPEB plan investments, net of pension/OPEB plan investment expense, was 13.24% and 11.82%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate - A discount rate of 7.5% was used to measure the total pension/OPEB liability (7.0% for the Pension Plus plan, a hybrid plan). This discount rate was based on the long-term expected rate of return on pension/OPEB plan investments of 7.5% (7.0% for the Pension Plus plan). The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate.

Hillsdale Community Schools
Notes to Financial Statements

Note 11 – Defined Benefit Pension Plan and Postemployment Benefits Other Than Pensions (Continued)

Discount Rate (Continued) - Based on these assumptions, the pension/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 pension/OPEB plan investments was applied to all periods of projected benefits payments to determine the total pension/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 the discount rate of 7.5% (7.0% for the Pension Plus Plan), as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher:

<u>Current Single Discount Rate</u>		
1% Decrease (Non-Hybrid/Hybrid)*	Assumption (Non-Hybrid/Hybrid)*	1% Increase (Non-Hybrid/Hybrid)*
<u>6.5%/6.0%</u>	<u>7.5%/7.0%</u>	<u>8.5%/8.0%</u>
<u>\$26,594,985</u>	<u>\$20,415,791</u>	<u>\$15,213,303</u>

*The Basic Plan and the Member Investment Plan (MIP) are non-hybrid plans. Pension Plus is a hybrid plan, with a defined benefit (pension) component and a defined contribution (DC) component.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate - The following presents the School District’s proportionate share of the net OPEB liability calculated using the discount rate of 7.5%, as well as what the District’s proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher:

1% Decrease	Current Discount Rate	1% Increase
<u>6.5%</u>	<u>7.5%</u>	<u>8.5%</u>
<u>\$8,178,700</u>	<u>\$6,982,649</u>	<u>\$5,967,576</u>

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate - The following presents the School District’s proportionate share of the net OPEB liability calculated using the assumed trend rates, as well as what the District’s proportionate share of the net OPEB liability would be if it were calculated using a trend rate that is one percentage point lower or one percentage point higher:

1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
<u>6.5%</u>	<u>7.5%</u>	<u>8.5%</u>
<u>\$5,913,365</u>	<u>\$6,982,649</u>	<u>\$8,196,746</u>

Note 12 – Federal and State Grants

The District has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowance under terms of the grants, management believes that any required reimbursements would not be material.

Hillsdale Community Schools
Notes to Financial Statements

Note 13 - Sinking Fund

The Building & Site Fund is a sinking fund which records capital project activities funded with sinking fund millage. For this fund, the School District has complied with the applicable provisions of Section 1212(1) of the Revised School Code and the State of Michigan Department of Treasury Letter No. 01-95.

Note 14 – New Accounting Standard

For the year ended June 30, 2018, the District has implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* which was promulgated with the purpose of improving accounting and financial reporting for postemployment benefits other than pensions (OPEB). The Statement established standards for measuring and recognizing OPEB liabilities, OPEB expenses, and the related deferred inflows and deferred outflows of resources. The Statement requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net OPEB liability and expense for the cost-sharing plan, similar to the requirements under GASB Statement No. 68 for pension liability reporting. The Statement also addresses standards for OPEB note disclosures and required supplementary information. As a result of this implementation, which was effective July 1, 2017, the beginning net position has been adjusted to reflect the beginning of year balances of the net OPEB liability and related deferrals of inflows and outflows of resources. This restatement of net position is as follows:

Net position, as originally reported	\$ (6,384,203)
Adjustment for net OPEB liability and related deferred inflows and outflows	<u>(7,054,373)</u>
Restated beginning net position	<u><u>\$ (13,438,576)</u></u>

Previous to the implementation of this standard, the OPEB liabilities were not recorded on the District's financial statements. The standard requires this change to be applied retroactively.

Note 15 – Upcoming Accounting and Reporting Changes

GASB has issued Statement No. 84, *Fiduciary Activities*, to improve accounting and financial reporting over fiduciary activities. The Statement establishes criteria for identifying fiduciary activities and whether these identified fiduciary activities should be reported in a separate fiduciary fund in the basic financial statements. The Statement aims to enhance consistency and comparability for assessing government accountability and stewardship over fiduciary activities. Statement No. 84 will be effective for the District's fiscal year ending June 30, 2020.

Statement No. 87, *Leases*, was issued by the Governmental Accounting Standards Board to increase the usefulness of government financial statements by requiring reporting of certain lease liabilities that currently are not reported. It will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model. The Statement also addresses standards for note disclosures to include information regarding the timing, significance, and purpose of a government's leasing arrangements. Statement No. 87 will be effective for the District's fiscal year ending June 30, 2021.

GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, was issued to improve noted disclosures related to debt, including clarifying which liabilities should be included when governments disclose information regarding debt. The Statement requires the disclosure of essential information related to debt including unused lines of credit, collateral pledged as debt security, and other significant terms. Statement No. 88 will be effective for the District's fiscal year ending June 30, 2019.

Required Supplementary Information

Hillsdale Community Schools
 Budgetary Comparison Schedule - General Fund
 Year Ended June 30, 2018

	Budgeted Amounts		Actual
	Original	Final	
Revenues:			
Local sources	\$ 2,242,871	\$ 2,263,439	\$ 2,278,255
State sources	10,041,595	10,760,194	10,770,625
Federal sources	771,352	504,985	511,915
Interdistrict and other	38,000	51,490	51,489
Total revenues	<u>13,093,818</u>	<u>13,580,108</u>	<u>13,612,284</u>
Expenditures:			
Instruction:			
Basic programs	6,784,283	7,068,481	6,971,968
Added needs	1,867,966	1,319,921	1,307,467
Adult education	42,162	64,016	62,017
Support services:			
Pupil	268,473	289,100	285,194
Instructional staff	236,090	143,779	138,343
General administration	285,644	265,116	261,808
School administration	724,319	748,372	746,687
Business	280,276	248,443	243,633
Operation & maintenance	1,358,255	1,358,625	1,326,865
Pupil transportation	859,388	1,094,904	1,054,909
Central services	165,620	166,950	160,584
Athletic activities	368,657	385,344	382,843
Community services:			
Community activities	1,700	10,841	9,579
Debt service:			
Principal	125,000	88,271	88,013
Interest and other charges	4,000	2,651	2,409
Total expenditures	<u>13,371,833</u>	<u>13,254,814</u>	<u>13,072,593</u>
Revenues Over (Under) Expenditures	<u>(278,015)</u>	<u>325,294</u>	<u>539,691</u>
Other Financing Sources (Uses):			
Proceeds from long-term debt	95,000	-	-
Proceeds from sale of capital assets	-	389,500	389,500
Transfers out	-	(9,000)	(6,500)
Total other financing sources (uses)	<u>95,000</u>	<u>380,500</u>	<u>383,000</u>
Net Changes in Fund Balances	(183,015)	705,794	922,691
Fund Balances - Beginning of Year	<u>1,370,345</u>	<u>1,370,345</u>	<u>1,370,345</u>
Fund Balances - End of Year	<u>\$ 1,187,330</u>	<u>\$ 2,076,139</u>	<u>\$ 2,293,036</u>

Hillsdale Community Schools

Schedule of the District's Proportionate Share of the Net Pension Liability of the MPSERS Plan
Last Four Fiscal Years (Amounts Determined Each Year as of September 30)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of net pension liability (%)	<u>0.0788%</u>	<u>0.0773%</u>	<u>0.0799%</u>	<u>0.0797%</u>
District's proportionate share of net pension liability	<u>\$ 20,415,791</u>	<u>\$ 19,297,803</u>	<u>\$ 19,506,725</u>	<u>\$ 17,563,376</u>
District's covered-employee payroll	<u>\$ 6,729,182</u>	<u>\$ 6,446,326</u>	<u>\$ 6,665,510</u>	<u>\$ 7,306,122</u>
District's proportionate share of net pension liability as a percentage of its covered-employee payroll	<u>303.39%</u>	<u>299.36%</u>	<u>292.65%</u>	<u>240.39%</u>
Plan fiduciary net position as a percentage of total pension liability	<u>64.21%</u>	<u>63.27%</u>	<u>63.17%</u>	<u>66.20%</u>

Hillsdale Community Schools

Schedule of the District's Pension Contributions to the MPSERS Plan
Last Four Fiscal Years (Amounts Determined Each Year as of June 30)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contributions	\$ 1,967,098	\$ 1,826,368	\$ 1,856,739	\$ 1,238,370
Contributions in relation to statutorily required contributions	<u>1,967,098</u>	<u>1,826,368</u>	<u>1,856,739</u>	<u>1,238,370</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	<u>\$ 6,718,276</u>	<u>\$ 6,903,006</u>	<u>\$ 6,469,382</u>	<u>\$ 6,746,650</u>
Contributions as a percentage of covered-employee payroll	<u>29.28%</u>	<u>26.46%</u>	<u>28.70%</u>	<u>18.36%</u>

Hillsdale Community Schools
Notes to Required Supplementary Information Pension Schedules
Year Ended June 30, 2018

Changes of Benefit Terms: There were no changes of benefit terms in 2017.

Changes of Assumptions: The actuarial assumption regarding the investment rate of return for MIP and Basic plans changed from 8.0% to 7.5% effective for the State's fiscal year ended September 30, 2017.

Hillsdale Community Schools

Schedule of the District's Proportionate Share of the Net OPEB Liability of the MPSERS Plan
Fiscal Year (Amounts Determined as of September 30)

	<u>2017</u>
District's proportion of net OPEB liability (%)	<u>0.0789%</u>
District's proportionate share of net OPEB liability	<u>\$ 6,982,649</u>
District's covered-employee payroll	<u>\$ 6,729,182</u>
District's proportionate share of net OPEB liability as a percentage of its covered-employee payroll	<u>103.77%</u>
Plan fiduciary net position as a percentage of total OPEB liability	<u>36.39%</u>

Hillsdale Community Schools
 Schedule of the District's OPEB Contributions to the MPSERS Plan
 Fiscal Year (Amounts Determined as of June 30)

	2018
Statutorily required OPEB contributions	\$ 486,412
OPEB contributions in relation to statutorily required contributions	486,412
Contribution deficiency (excess)	\$ -
District's covered-employee payroll (OPEB)	\$ 6,718,276
OPEB contributions as a percentage of covered-employee payroll	7.24%

Hillsdale Community Schools
Notes to Required Supplementary Information OPEB Schedules
Year Ended June 30, 2018

Changes of Benefit Terms: There were no changes of benefit terms in 2017.

Changes of Assumptions: There were no changes of benefit assumptions in 2017.

Hillsdale Community Schools

Single Audit Report

Year Ended June 30, 2018

Contents

	<u>Page</u>
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1 - 2
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance	3 - 4
Schedule of Expenditures of Federal Awards	5
Schedule of Reconciliation of Revenues with Schedule of Expenditures of Federal Awards.....	6
Notes to Schedule of Expenditures of Federal Awards.....	7
Schedule of Findings and Questioned Costs	8
Comments on Resolution of Findings from June 30, 2017	9



WILLIS & JURASEK

CPAs AND CONSULTANTS

**Independent Auditors' 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***

Board of Education
Hillsdale Community Schools
Hillsdale, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental 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 Hillsdale Community Schools as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Hillsdale Community Schools' basic financial statements, and have issued our report thereon dated September 12, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Hillsdale 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 Hillsdale Community Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of Hillsdale 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Board of Education
Hillsdale Community Schools
Hillsdale, Michigan

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hillsdale 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*.

Purpose of this Report

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

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.

September 12, 2018



WILLIS & JURASEK
CPAS AND CONSULTANTS

**Independent Auditors' Report on Compliance for Each Major Program
and on Internal Control Over Compliance Required by the Uniform Guidance**

Board of Education
Hillsdale Community Schools
Hillsdale, Michigan

Report on Compliance for Each Major Federal Program

We have audited Hillsdale 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 Hillsdale Community Schools' major federal programs for the year ended June 30, 2018. Hillsdale Community Schools' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Hillsdale 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 auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether the 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 Hillsdale 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 Hillsdale Community Schools' compliance.

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

Management of Hillsdale 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 Hillsdale 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 Hillsdale 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 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.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hillsdale Community Schools as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise Hillsdale Community Schools' basic financial statements. We have issued our report thereon dated September 12, 2018, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

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.

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.
September 12, 2018

Hillsdale Community Schools
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

<u>Federal Grantor/Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Grantor's Number</u>	<u>Award/Grant Entitlement Program Amount</u>	<u>Accrued (Deferred) Revenue 7/1/2017</u>	<u>Prior Years Expenditures (Memorandum Only)</u>	<u>Current Year Receipts</u>	<u>Current Year Expenditures</u>	<u>Accrued (Deferred) Revenue 6/30/2018</u>
<u>U.S. Department of Agriculture</u>								
Child Nutrition Cluster:								
Passed through MI Department of Education:								
Non-cash Assistance (Commodities):								
National School Lunch Program - Regular	10.555		\$ 59,201	\$ -	\$ -	\$ 59,201	\$ 59,201	\$ -
Cash Assistance:								
National School Lunch Program	10.555	171960	374,399	-	323,101	51,298	51,298	-
		181960	307,338	-	-	307,338	307,338	-
			681,737	-	323,101	358,636	358,636	-
Total National School Lunch Program	10.555		740,938	-	323,101	417,837	417,837	-
School Breakfast Program	10.553	171970	132,056	-	115,278	16,778	16,778	-
		181970	111,308	-	-	111,308	111,308	-
			243,364	-	115,278	128,086	128,086	-
Summer Food Service Program	10.559	170900	1,652	-	-	1,652	1,652	-
		171900	172	-	-	172	172	-
			1,824	-	-	1,824	1,824	-
Total Cash Assistance			926,925	-	438,379	488,546	488,546	-
Total Child Nutrition Cluster			986,126	-	438,379	547,747	547,747	-
Child and Adult Care Food Program	10.558	171920	62,925	-	62,925	8,014	8,014	-
		172010	3,825	-	3,825	508	508	-
		181920	58,353	-	-	58,353	58,353	-
		182010	4,158	-	-	4,158	4,158	-
			129,261	-	66,750	71,033	71,033	-
Total U.S. Department of Agriculture			1,115,387	-	505,129	618,780	618,780	-
<u>U.S. Department of Education:</u>								
Passed through MI Department of Education:								
Title I Part A								
	84.010	171530-1617	650,573	169,299	484,005	205,703	36,404	-
		181530-1718	568,332	-	-	184,329	402,211	217,882
			1,218,905	169,299	484,005	390,032	438,615	217,882
Title IIA	84.367	170520-1617	202,974	8,442	30,315	14,470	6,028	-
		180520-1718	196,720	-	-	31,392	50,378	18,986
			399,694	8,442	30,315	45,862	56,406	18,986
Title VIB	84.358	170660-1617	48,353	-	10,687	293	293	-
		180660-1718	49,816	-	-	-	15,349	15,349
			98,169	-	10,687	293	15,642	15,349
Total passed through MI Department of Education			1,716,768	177,741	525,007	436,187	510,663	252,217
Total U.S. Department of Education			1,716,768	177,741	525,007	436,187	510,663	252,217
<u>U.S. Department of Health and Human Services:</u>								
Passed through Hillsdale County ISD								
Medicaid Outreach	93.778	2017-2018	1,252	-	-	1,252	1,252	-
Total U.S. Department of Health and Human Services			1,252	-	-	1,252	1,252	-
			\$ 2,833,407	\$ 177,741	\$ 1,030,136	\$ 1,056,219	\$ 1,130,695	\$ 252,217

Hillsdale Community Schools
Schedule of Reconciliation of Revenues with
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

	<u>Amount</u>
Revenue from Federal sources - per financial statements (includes all funds)	\$ <u>1,130,695</u>
Federal expenditures per the Schedule of Expenditures of Federal Awards	\$ <u>1,130,695</u>

Hillsdale Community Schools
Notes to Schedule of Expenditures of Federal Awards

Note 1 - Basis of Presentation

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

Note 2 – Summary of Significant Explanations of Schedule

Expenditures reported in the Schedule are reported on the modified accrual basis of accounting, which is described in Note 1 to the District's financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or limited as to reimbursement. Negative amounts shown on the Schedule represented adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

Cash received is recorded on the cash basis; expenditures are recorded on the modified accrual basis of accounting. Revenue is recognized when the qualifying expenditures have been included and all grant requirements have been met.

The Schedule has been arranged to provide information on both actual cash received and the revenue recognized. Accordingly, the effects of accruals of accounts receivable, unearned revenue, and accounts payable items at both the beginning and end of the fiscal year have been reported.

Expenditures are in agreement with amounts reported in the financial statements and the financial reports. The amounts on the Grant Auditor Report reconcile with this schedule with any differences being timing issues of when cash was received. The amounts reported on the Recipient Entitlement Balance (PAL) Report agree with this schedule for USDA donated food commodities and the expenditures include any spoilage or pilferage.

For purposes of charging indirect costs to federal awards, the District has not elected to use the 10 percent de minimis cost rate as permitted by section 200.414 of the Uniform Guidance.

Note 3 – Subrecipients

No federal awards were passed through the District to any subrecipients during the year.

Hillsdale Community Schools
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2018

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued:	Unmodified
Internal control over financial reporting:	
Material weakness identified	_____ yes <u> X </u> no
Significant deficiencies identified that are not considered to be material weaknesses	_____ yes <u> X </u> none reported
Noncompliance material to financial statements noted	_____ yes <u> X </u> no

Federal Awards

Internal control over major programs:	
Material weakness identified	_____ yes <u> X </u> no
Significant deficiencies identified that are not considered to be material weaknesses	_____ yes <u> X </u> none reported

Type of auditors’ report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)	_____ yes <u> X </u> no

Identification of major programs:

CFDA Number
10.555/10.553/10.559

Name of Federal Program
Child Nutrition Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	<u> \$ 750,000 </u>
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Auditee qualified as low-risk	<u> X </u> yes _____ no
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Section II – Financial Statement Audit Findings

None

Section III – Federal Program Audit Findings

None

Hillsdale Community Schools
Comments on Resolution of Findings from June 30, 2017
Single Audit Report

Finding:

None



WILLIS & JURASEK

CPAS AND CONSULTANTS

September 12, 2018

To the Board of Education
Hillsdale Community Schools
Hillsdale, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hillsdale Community Schools for the year ended June 30, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 13, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Hillsdale Community Schools are described in Note 1 to the financial statements. As described in Note 1 and Note 11 to the financial statements, Hillsdale Community Schools changed its accounting policies related to OPEB plans by adopting Statement of Governmental Accounting Standard (GASB Statement) No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* in the fiscal year ended June 30, 2018. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the Statement of Activities as well as Note 14. We noted no transactions entered into by the School District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Management has estimated the value of capitalized assets and the related accumulated depreciation. The bulk of the capitalized costs is based upon an asset appraisal done in a prior year. Related depreciation is based upon estimated usage using estimated lives and methods to formulate net book value. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statements contain estimates for net pension and OPEB liabilities and related deferred inflows and deferred outflows of resources. This information has been provided by ORS to all school districts participating in the MPSERS pension/OPEB system. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Management has also estimated the liability for compensated absences. We have evaluated the key factors and assumptions used to develop the liability for compensated absences in determining that it is reasonable in relation to the financial statements taken as a whole.

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated as per the auditors' report.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

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

Restriction on Use

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

Very truly yours,

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.