

# **Hillsdale Community Schools**

Financial Report  
With Supplemental Information

Year Ended June 30, 2017

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## **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, 2017, 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, 2017, 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.

## **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 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 13, 2017 (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 13, 2017

# Hillsdale Community Schools

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## Management's Discussion and Analysis Year Ended June 30, 2017

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, 2017. 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, 2017

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, 2017 was \$(6,384,203). Of this amount, \$(16,412,235) 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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Current assets	\$ 4,677,892	\$ 4,722,264
Non-current assets	<u>10,071,803</u>	<u>10,429,092</u>
Total assets	<u>14,749,695</u>	<u>15,151,356</u>
Deferred outflows of resources	<u>2,644,784</u>	<u>2,338,824</u>
Current liabilities	2,765,996	3,278,140
Non-current liabilities	<u>19,897,518</u>	<u>20,642,927</u>
Total liabilities	<u>22,663,514</u>	<u>23,921,067</u>
Deferred inflows of resources	<u>1,115,168</u>	<u>597,001</u>
Net position:		
Invested in capital assets – net of related debt	9,551,149	9,584,671
Restricted for capital projects	476,883	287,490
Unrestricted	<u>(16,412,235)</u>	<u>(16,900,049)</u>
Total net position	<u>\$ (6,384,203)</u>	<u>\$ (7,027,888)</u>

# Hillsdale Community Schools

## Management's Discussion and Analysis Year Ended June 30, 2017

### The School District as a Whole (Concluded)

**TABLE 2 – Changes in Net Position**

Years ended June 30, 2017 and 2016

	2017	2016
Program Revenue		
Charges for Services	\$ 255,003	\$ 228,188
Operating Grants and Contributions	3,148,851	2,883,977
General Revenue		
Property Taxes-general purposes	1,950,464	1,998,986
Property Taxes-capital projects	621,763	623,552
State School Aid	8,825,258	7,902,701
Miscellaneous	194,368	147,845
Total Revenue	<u>\$ 14,995,707</u>	<u>\$ 13,785,249</u>
Expenses		
Instruction	\$ 8,243,178	\$ 7,737,641
Support Services	4,464,383	4,004,458
Food Service	858,178	775,036
Community Services	13,354	14,921
Capital Outlay	20,636	27,340
Other	558	2,531
Depreciation – Unallocated	742,609	722,184
Interest on Long-Term Debt	9,126	8,810
Total Expenses	<u>\$ 14,352,022</u>	<u>\$ 13,292,921</u>
INCREASE (DECREASE) IN NET POSITION	<u>\$ 643,685</u>	<u>\$ 492,328</u>

As shown above, the cost of all our governmental activities this year was \$14,352,022. However, the amount that our taxpayers ultimately financed for those activities through school property taxes was \$2,572,227. 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 2016 – 2017:

- Change in pension liability
- Increase in pupil count
- Continued monitoring of costs

### **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, 2017, the School District amended the General Fund Budget two times.

# Hillsdale Community Schools

## Management's Discussion and Analysis Year Ended June 30, 2017

### General Fund

The actual revenue and transfers-in of the General Fund was \$13,647,878, above the original budget estimates of \$13,252,690 and above the final amended budget of \$13,604,683. The district benefited from increased enrollment in the GSRP enrollment which increased revenues and there was a slightly higher enrollment than projected based on past trends.

The actual expenditures of the General Fund were \$13,184,049, below the original budget estimates of \$13,369,241 and below the final amended budget of \$13,278,664. The district did not spend its curriculum material adoption budget of \$90,000 prior to the end of the fiscal year of June 30<sup>th</sup>. Those funds are planned for use in the 2017-18 budget. Additionally, there were several unpaid leaves of absence of staff members which lowered personnel costs. Utility costs were lower than projected (three-year averages) based on lower prices and more favorable weather.

### CAPITAL ASSET AND DEBT ADMINISTRATION

At the end of fiscal year 2017, the School District had \$27,973,009 invested in land and buildings, furniture and equipment, and vehicles. We have estimated that these assets have depreciated by \$17,901,206 through June 30, 2017; therefore, we currently have net book value of \$10,071,803.

Total additions for consisted of a new school bus, a new truck, a dishwasher, technology upgrades, a building renovations.

	2017	2016
Land	\$ 82,434	\$ 82,434
Construction in progress	-	20,272
Buildings and improvements	21,129,570	20,884,207
Furniture and equipment	5,118,279	5,089,147
Vehicles	1,411,075	1,279,978
Infrastructure	231,651	231,651
Less: accumulated depreciation	<u>(17,901,206)</u>	<u>(17,158,597)</u>
	<b><u>\$ 10,071,803</u></b>	<b><u>\$ 10,429,092</u></b>

At June 30, 2017, the School District had \$520,654 in general obligation debt.

	2017	2016
Notes and leases	\$ 170,654	\$ 164,421
Bonds	350,000	680,000
	<b><u>\$ 520,654</u></b>	<b><u>\$ 844,421</u></b>

Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, was implemented during a previous fiscal year. The purpose of this standard is to improve accounting and financial reporting for pensions. It established standards for measuring and recognizing pension liabilities, pension 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 pension plan administered through the Michigan



# Hillsdale Community Schools

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## Management's Discussion and Analysis Year Ended June 30, 2017

Public School Employees' Retirement System (MPSERS). The unfunded pension 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, 2014. With the recording of this pension liability, the liabilities of the District exceeded its assets.

### **FACTORS BEARING ON THE DISTRICT'S FUTURE**

Enrollment was maintained from the previous year. Having stable enrollment from one year to next has not happened in several years. The enrollment also maintained relatively stable throughout the year.

The Bailey Early Childhood Center continues to have a positive impact on the preparedness for kindergarten and for enrollment in the upcoming school year. There were 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. Even with those changes, the pre-school enrollment in the GSRP programs continued to be strong; although not as strong as the prior year. Both half-day and full-day programs were provided for pre-school level children.

The school district continued to work with outside agencies like Community Action Agency to provide transportation services to their HeadStart students and to rent two classroom spaces for those same programs at the Early Childhood Center.

The district's middle school, Davis Middle School was identified as a Reward School for two separate academic metrics. Both of these state level awards show a positive academic achievement trend continuing at the middle school level. Davis Middle School was the top academic performing school in their state-assigned cohort group of 30 like schools.

The academic success of students within the district continued its upward trend. US News and World Report ranked Hillsdale High School as one of the best high schools in America for college and career readiness, upping the school's already impressive ranking even further to a Silver Medal. This identifies HHS in the Top 10% of all high schools across the United States for the second consecutive year.

### **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, 2017

	<b>Governmental Activities</b>
<b>Assets:</b>	
Cash and investments	\$ 2,370,360
Receivables	101,967
Due from other governmental units	2,119,474
Inventories	14,675
Prepaid expenditures	71,416
Capital assets:	
Cost of capital assets	27,973,009
Less: accumulated depreciation	(17,901,206)
Net capital assets	10,071,803
Total assets	14,749,695
<b>Deferred Outflows of Resources:</b>	
Pension related	2,644,784
Total deferred outflows of resources	2,644,784
<b>Liabilities:</b>	
Accounts payable and accrued expenses	1,353,643
State aid anticipation notes	1,000,000
Unearned revenue	412,353
Long-term liabilities:	
Due within one year:	
Bonds and notes payable	438,007
Accrued interest	5,400
Due in more than one year:	
Bonds and notes payable	82,647
Compensated absences	73,661
Net pension liability	19,297,803
Total liabilities	22,663,514
<b>Deferred Inflows of Resources:</b>	
Pension related	1,115,168
Total deferred inflows of resources	1,115,168
<b>Net Position:</b>	
Invested in capital assets, net of related debt	9,551,149
Restricted for:	
Capital projects	476,883
Unrestricted	(16,412,235)
Total net position	\$ (6,384,203)

## Hillsdale Community Schools

Statement of Activities  
Year Ended June 30, 2017

<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>	
<b>Primary Government</b>				
Governmental activities:				
Instruction	\$ 8,243,178	\$ 30,062	\$ 1,771,082	\$ (6,442,034)
Support services	4,464,383	48,306	722,780	(3,693,297)
Food service activities	858,178	176,635	654,989	(26,554)
Community services	13,354	-	-	(13,354)
Other	558	-	-	(558)
Interest on long-term debt	9,126	-	-	(9,126)
Capital outlay	20,636	-	-	(20,636)
Depreciation (unallocated)	742,609	-	-	(742,609)
Total governmental activities	<u>\$ 14,352,022</u>	<u>\$ 255,003</u>	<u>\$ 3,148,851</u>	<u>(10,948,168)</u>
 <b>General Revenues:</b>				
Taxes:				
Property taxes, levied for general purposes				1,950,464
Property taxes, levied for capital projects				621,763
State aid not restricted to specific purposes				8,825,258
Unrestricted investment earnings				8,962
Other				185,406
Total general revenues				<u>11,591,853</u>
<b>Change in Net Position</b>				643,685
<b>Net Position - Beginning of Year</b>				<u>(7,027,888)</u>
<b>Net Position - End of Year</b>				<u>\$ (6,384,203)</u>

## Hillsdale Community Schools

Balance Sheet  
Governmental Funds  
June 30, 2017

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Nonmajor Special Revenue Fund</u>	<u>Total Governmental Funds</u>
<b><u>Assets</u></b>				
Cash and investments	\$ 1,743,765	\$ 486,379	\$ 140,216	\$ 2,370,360
Due from other funds	106,983	-	-	106,983
Receivable from other governments	2,114,080	-	5,394	2,119,474
Other receivables	92,350	-	9,617	101,967
Inventories	-	-	14,675	14,675
Prepaid expenditures	23,390	-	48,026	71,416
Total assets	<u>\$ 4,080,568</u>	<u>\$ 486,379</u>	<u>\$ 217,928</u>	<u>\$ 4,784,875</u>
 <b><u>Liabilities and Fund Balances</u></b>				
<b>Liabilities:</b>				
Accounts payable	\$ 44,490	4,096	\$ 18,898	\$ 67,484
Due to other funds	-	-	106,983	106,983
Revenue anticipation notes	1,000,000	-	-	1,000,000
Unearned revenue	407,433	-	4,920	412,353
Salaries payable and related	1,252,900	-	33,259	1,286,159
Accrued expenditures	5,400	-	-	5,400
Total liabilities	<u>2,710,223</u>	<u>4,096</u>	<u>164,060</u>	<u>2,878,379</u>
 <b>Fund Balances:</b>				
Nonspendable:				
Inventories	-	-	14,675	14,675
Prepaid expenditures	23,390	-	48,026	71,416
Restricted:				
Capital projects	-	482,283	-	482,283
Committed	135,000	-	-	135,000
Assigned	160,645	-	-	160,645
Unassigned	1,051,310	-	(8,833)	1,042,477
Total fund balances	<u>1,370,345</u>	<u>482,283</u>	<u>53,868</u>	<u>1,906,496</u>
Total liabilities and fund balances	<u>\$ 4,080,568</u>	<u>\$ 486,379</u>	<u>\$ 217,928</u>	<u>\$ 4,784,875</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, 2017

<b>Total Fund Balances - Governmental Funds</b>		<b>\$ 1,906,496</b>
Amounts reported for governmental activities in the Statement of Net Position		
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	\$ 27,973,009	
Accumulated depreciation is	<u>(17,901,206)</u>	
		10,071,803
Long-term liabilities and related deferred outflows and inflows are not due and payable in the current period and not reported in the funds.		
Bonds payable	(350,000)	
Notes payable	(170,654)	
Compensated absences	(73,661)	
Deferred outflows related to net pension liability	2,644,784	
Deferred inflows related to net pension liability	(1,115,168)	
Net pension liability	<u>(19,297,803)</u>	
		<u>(18,362,502)</u>
<b>Total Net Position - Governmental Activities</b>		<b><u>\$ (6,384,203)</u></b>

**Hillsdale Community Schools**  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
Year Ended June 30, 2017

	<u>General Fund</u>	<u>Building &amp; Site Fund</u>	<u>Nonmajor Food Service Fund</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
Local sources	\$ 2,312,871	\$ 623,960	\$ 217,503	\$ 3,154,334
State sources	10,618,942	-	29,929	10,648,871
Federal sources	576,212	-	625,060	1,201,272
Interdistrict and other	139,853	-	764	140,617
Total revenues	<u>13,647,878</u>	<u>623,960</u>	<u>873,256</u>	<u>15,145,094</u>
<b>Expenditures:</b>				
Instruction	8,297,002	-	-	8,297,002
Support services	4,783,004	-	-	4,783,004
Community services	13,354	-	-	13,354
Food service activities	-	-	859,221	859,221
Other	-	558	-	558
Debt service:				
Principal	87,703	330,000	-	417,703
Interest and other charges	2,986	6,140	-	9,126
Capital outlay	-	92,469	-	92,469
Total expenditures	<u>13,184,049</u>	<u>429,167</u>	<u>859,221</u>	<u>14,472,437</u>
<b>Revenues Over (Under) Expenditures</b>	<u>463,829</u>	<u>194,793</u>	<u>14,035</u>	<u>672,657</u>
<b>Other Financing Sources (Uses):</b>				
Transfers in	-	-	6,820	6,820
Transfers out	(6,820)	-	-	(6,820)
Total other financing sources (uses)	<u>(6,820)</u>	<u>-</u>	<u>6,820</u>	<u>-</u>
<b>Net Changes in Fund Balances</b>	457,009	194,793	20,855	672,657
<b>Fund Balances - Beginning of Year</b>	<u>913,336</u>	<u>287,490</u>	<u>33,013</u>	<u>1,233,839</u>
<b>Fund Balances - End of Year</b>	<u>\$ 1,370,345</u>	<u>\$ 482,283</u>	<u>\$ 53,868</u>	<u>\$ 1,906,496</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, 2017

**Net Change in Fund Balances - Total Governmental Funds** \$ 672,657

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	\$ (742,609)	
Capital outlay	<u>385,320</u>	
		(357,289)

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

Debt issued	(93,936)	
Repayments to bond and note holders	417,703	
Change in compensated absences	<u>7,835</u>	
		331,602

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

Changes in pension related liabilities and deferrals		(3,285)
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**Change in Net Position of Governmental Activities** \$ 643,685

**Hillsdale Community Schools**  
Statement of Fiduciary Net Position  
Fiduciary Funds  
June 30, 2017

	<u>Agency Fund</u>
<b>Assets:</b>	
Cash and cash equivalents	\$ 174,228
	<u>                    </u>
<b>Liabilities:</b>	
Due to student groups	\$ 174,228
	<u>                    </u>



## **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.

**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

**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 (Continued)** - 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 they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, 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.

**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, 2017, the foundation allowance was based on pupil membership counts taken in February 2016 and September 2016.

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 2016 to August 2017. The unpaid portion at June 30<sup>th</sup> is reported as due from other governmental units.

**Hillsdale Community Schools**  
Notes to Financial Statements

**Note 1 – Summary of Significant Accounting Policies (Continued)**

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

**State Revenue (Continued)** - 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 deferred 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, 2017, 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	1.9988

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.

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.

**Hillsdale Community Schools**  
Notes to Financial Statements

**Note 1 – Summary of Significant Accounting Policies (Continued)**

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

**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.

**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 plan expenses. Deferred pension plan expenses are recognized in the plan years to which it applies. The District also currently reports deferred outflows of resources from pension payments made subsequent to the measurement date to be recognized as the corresponding time lags are met.

**Hillsdale Community Schools**  
Notes to Financial Statements

**Note 1 – Summary of Significant Accounting Policies (Continued)**

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

**Deferred Outflows/Inflows of Resources (Continued)** - 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 plan. 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 8 for detailed information.

**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 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) and may only be removed by those individuals, assigned amounts that have an intended but no formal specific purpose, 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.

**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

**Defined Benefit Pension Plan (Continued)** - 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. Investments are reported at fair value. See Note 11 for detailed information.

**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.

**Hillsdale Community Schools**  
Notes to Financial Statements

**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.

**Note 3 – Deposits and Investments**

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

	<b>Governmental Activities</b>	<b>Fiduciary Funds</b>	<b>Total Primary Government</b>
Cash and cash equivalents	\$ <u>2,370,360</u>	\$ <u>174,228</u>	\$ <u>2,544,588</u>

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

Deposits (checking and savings accounts)	\$2,544,488
Petty cash and cash on hand	100
Total	<u>\$2,544,588</u>

**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 \$2,962,000 had \$2,462,000 of bank deposits that were uninsured and uncollateralized.

**Hillsdale Community Schools**  
Notes to Financial Statements

**Note 3 – Deposits and Investments (Continued)**

**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 \$2,221,441 and consist mainly of amounts due from the Michigan Department of Education for State aid and federal grants.

**Note 5 – Capital Assets**

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

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Year-End Balance</b>
Capital assets not being depreciated:				
Land	\$ 82,434	\$ -	\$ -	\$ 82,434
Construction in progress	20,272	-	20,272	-
Subtotal	<u>102,706</u>	<u>-</u>	<u>20,272</u>	<u>82,434</u>
Capital assets being depreciated:				
Buildings and improvements	20,884,207	245,363	-	21,129,570
Infrastructure	231,651	-	-	231,651
Buses and other vehicles	1,279,978	131,097	-	1,411,075
Furniture and equipment	5,089,147	29,132	-	5,118,279
Subtotal	<u>27,484,983</u>	<u>405,592</u>	<u>-</u>	<u>27,890,575</u>
Accumulated depreciation:				
Buildings and improvements	10,995,794	630,313	-	11,626,107
Infrastructure	171,038	11,582	-	182,620
Buses and other vehicles	1,017,902	78,997	-	1,096,899
Furniture and equipment	4,973,863	21,717	-	4,995,580
Subtotal	<u>17,158,597</u>	<u>742,609</u>	<u>-</u>	<u>17,901,206</u>
Net capital assets being depreciated	<u>10,326,386</u>	<u>(337,017)</u>	<u>-</u>	<u>9,989,369</u>
Net capital assets	<u>\$ 10,429,092</u>	<u>\$ (337,017)</u>	<u>\$ 20,272</u>	<u>\$ 10,071,803</u>

**Hillsdale Community Schools**  
Notes to Financial Statements

**Note 5 – Capital Assets (Continued)**

Included in the buildings and improvements category is an elementary school building that is currently idle and is stated at fair value of \$35,000. Depreciation for the current year totaled \$742,609. 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:

	<b>Due To:</b>
Due From:	<b>General Fund</b>
Food Service Fund	<u>\$ 106,983</u>

No transfer was made from the Food Service Fund to the General Fund for the current year to cover the indirect costs however \$6,820 was transferred from the General Fund to the Food Service Fund to cover expenditures allowable under a state grant program.

**Note 7 – Revenue Anticipation Notes Payable**

At June 30, 2017, the School District had State Aid anticipation notes outstanding that totaled \$1,000,000 with an interest rate of 0.54% and maturity date of August, 2017. The notes are secured by the full faith and credit of the District as well as pledged State Aid.

<b>Balance</b>			<b>Balance</b>
<b><u>June 30, 2016</u></b>	<b><u>Additions</u></b>	<b><u>Payments</u></b>	<b><u>June 30, 2017</u></b>
<u>\$ 1,700,000</u>	<u>\$ 1,000,000</u>	<u>\$ 1,700,000</u>	<u>\$ 1,000,000</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:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Amounts Due Within One Year</b>
Governmental Activities:					
Bonds	\$ 680,000	\$ -	\$ 330,000	\$ 350,000	\$ 350,000
Notes and leases	164,421	93,936	87,703	170,654	88,007
Compensated absences	81,496	-	7,835	73,661	-
Total governmental activities	<u>\$ 925,917</u>	<u>\$ 93,936</u>	<u>\$ 425,538</u>	<u>\$ 594,315</u>	<u>\$ 438,007</u>



**Hillsdale Community Schools**  
Notes to Financial Statements

**Note 8 – Long-Term Debt (Continued)**

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

	<b>Governmental Activities</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2018	\$ 438,007	\$ 5,900	\$ 443,907
2019	41,167	1,113	42,280
2020	41,480	559	42,039
Total	\$ 520,654	\$ 7,572	\$ 528,226

Long-term debt consists of:

Bonds Payable – County National Bank, final installment of \$350,000 due May 2018; interest at 1.00%	\$ 350,000
Note payable – County National Bank, secured by buses; payable in annual installments of \$25,600 plus interest at a rate of 2.01%; matures April 2018	25,600
Note payable – Southern Michigan Bank & Trust, secured by bus; payable in annual installments of \$21,547 plus interest at a rate of 1.04%; matures June 2018	21,547
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	53,055
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	70,452
	\$ 520,654

**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 for curriculum	\$ <u>135,000</u>
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## Hillsdale Community Schools Notes to Financial Statements

### 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 Post-Employment Benefits

#### Organization

**Plan Description** – The School District participates in the Michigan Public School Employees' Retirement System ("MPERS" 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. In addition, the System's health plan provides postemployment healthcare benefits to all retirees and beneficiaries as an elective option including health, dental, and vision coverage. 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.

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.

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 at [www.michigan.gov/mpsers-cafr](http://www.michigan.gov/mpsers-cafr). Information provided in this report includes financial data, actuarial assumptions data, and detailed information about the pension plan's fiduciary net position.

**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.

**Hillsdale Community Schools**  
Notes to Financial Statements

**Note 11 – Defined Benefit Pension Plan and Post-Employment Benefits (Continued)**

**Organization (Continued)**

**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 14.56% to 18.95% for the period of July 1, 2016 through September 30, 2016 and 15.27% to 19.03% for the period of October 1, 2016 through June 30, 2017.

The District's required and actual contributions to the plan for the year ended June 30, 2017 were \$1,826,368. The District's required and actual 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 June 30, 2017.

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

**Proportionate Share of School District's Net Pension Liability** - At June 30, 2017, the District reported a liability of \$19,297,803 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2015. 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, 2016, the District's proportionate share percent was .07734844 percent, a decrease of .00251524 percent from its proportion measured as of September 30, 2015.

**Pension Expense** - For the year ended June 30, 2017, the School District recognized pension expense of \$1,713,405, exclusive of payments to fund the MPSERS UAAL stabilization rate.

**Hillsdale Community Schools**  
Notes to Financial Statements

**Note 11 – Defined Benefit Pension Plan and Post-Employment Benefits (Continued)**

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

**Deferred Outflows and Deferred Inflows** - At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Difference between expected and actual experience	\$ 240,502	\$ 45,736
Changes of assumptions	301,706	-
Net difference between projected and actual earnings on pension plan investments	320,729	-
Changes in proportion and differences between reporting unit contributions and proportionate share of contributions	18,553	481,592
Reporting unit contributions subsequent to the measurement date	1,763,294	587,840
Total	<u>\$ 2,644,784</u>	<u>\$ 1,115,168</u>

\$1,763,294 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, 2018.

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

<b>Year Ended June 30</b>	<b>Amount</b>
2018	\$ 26,052
2019	830
2020	336,300
2021	(9,020)

**Payables to the Pension Plan** - The District reported an accrued pension plan payable at June 30, 2017 of \$177,018. This amount represents employee withholdings and the employer amount payable for wages earned at June 30, 2017 but not yet paid.

**Actuarial Assumptions**

**Actuarial Valuations and Assumptions** - Actuarial valuations for the pension plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions (ARC) are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

**Hillsdale Community Schools**  
Notes to Financial Statements

**Note 11 – Defined Benefit Pension Plan and Post-Employment Benefits (Continued)**

**Actuarial Assumptions (Continued)**

**Actuarial Valuations and Assumptions (Continued)** - 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, 2015
Actuarial cost method	Entry age, normal
Wage inflation rate	3.5%
Investment rate of return:	
MIP and Basic plans (non-hybrid)	8.0%
Pension Plus Plan (hybrid)	7.0%
Projected salary increases	3.5 – 12.3%, including wage inflation at 3.5%
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.

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 liability as of September 30, 2015 is based on the results of an actuarial valuation date of September 30, 2014, 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 – 4.6273
- Recognition period for assets in years is 5.0000.
- Full actuarial assumptions are available in the 2015 MPSERS Comprehensive Annual Financial Report ([www.michigan.gov/mpsers-cafr](http://www.michigan.gov/mpsers-cafr)).

**Long-Term Expected Rate of Return on Plan Assets** – The long-term expected rate of return on pension 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 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.

**Hillsdale Community Schools**  
Notes to Financial Statements

**Note 11 – Defined Benefit Pension Plan and Post-Employment Benefits (Continued)**

**Actuarial Assumptions (Continued)**

**Long-Term Expected Rate of Return on Plan Assets (Continued)** – Best estimates of arithmetic real rates of return for each major asset class included in the pension plan’s target asset allocation as of September 30, 2016, 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%	5.9%
Alternative investment pools	18.0%	9.2%
International equity	16.0%	7.2%
Fixed income pools	10.5%	0.9%
Real estate and infrastructure pools	10.0%	4.3%
Absolute return pools	15.5%	6.0%
Short-term investment pools	<u>2.0%</u>	0.0%
Total	<u>100.0%</u>	

\*Long-term rate of return does not include 2.1% inflation.

**Discount Rate** - A discount rate of 8.0% was used to measure the total pension 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 plan investments of 8.0% (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. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits payments to determine the total pension 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 8.0% (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>7.0%/6.0%</u>	<u>8.0%/7.0%</u>	<u>9.0%/8.0%</u>
<u>\$24,850,713</u>	<u>\$19,297,803</u>	<u>\$14,616,166</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.

**Hillsdale Community Schools**  
Notes to Financial Statements

**Note 11 – Defined Benefit Pension Plan and Post-Employment Benefits (Continued)**

**Related Subsequent Events**

On February 23, 2017, in accordance with PA 300 of 1980, as amended, the Michigan Public Schools Employees' Retirement System's Board approved a decrease in the assumed investment rate of return (discount rate) used in the System's annual actuarial valuation for the non-hybrid defined benefit pension plan from 8% to 7.5% effective for the fiscal year 2016 valuation and following.

The September 30, 2016 Annual Actuarial Valuation Report will be used to establish the employer contribution for fiscal year beginning October 1, 2018 and will be based upon the 7.5% investment rate of return assumption. The actuarial computed employer contributions and the net pension liability will increase as a result of lowering the assumed investment rate of return.

Senate Bill 401 amends the Public School Employees Retirement Act (PA 300 of 1980, as amended). The bill closes the current hybrid plan (Pension Plus) to newly hired employees as of February 1, 2018 and creates a new optional revised hybrid plan with similar plan benefit calculations but contains a 50/50 cost share between the employee and the employer, including the cost of future unfunded liabilities. The assumed rate of return on the new hybrid plan would equal 6%. Further, the bill provides, under certain conditions, that the new hybrid plan would close to new employees if the actuarial funded ratio falls below 85% for two consecutive years. The bill includes other provisions related to the retirement eligibility age, plan assumptions, and unfunded liability payment methods.

**Post-Employment Benefits Other than Pensions (OPEB)**

Under the MPSERS act, all participating retirees have the option of continuing health, dental, and vision coverage through MPSERS. Retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent, or 20 percent for those not Medicare eligible, of the monthly premium amount for the various coverages at the time of receiving the benefits. The MPSERS board of trustees annually sets the employer contribution rates to fund the benefits on a pay-as-you-go basis. The employer contribution rate on covered payroll for the period of July 1, 2016 through September 30, 2016 was 6.40% to 6.83% and for the period of October 1, 2016 through June 30, 2017 was 5.69% to 5.91%, dependent upon the employee's date of hire and plan election.

Members can choose to contribute 3.0% of their covered payroll to the Retiree Healthcare Fund and keep this premium subsidy benefit or they can elect not to pay the 3.0% contribution and instead choose the Personal Healthcare Fund, which can be used to pay healthcare expenses in retirement. Members electing the Personal Healthcare Fund will be automatically enrolled in a plan with 2.0% employee contributions into their 457 account as of their transition date and with a 2.0% employer match into the employee's 403b account.

The District's required and actual contributions to the plan for retiree healthcare benefits for the years ended June 30, 2017, 2016, and 2015 were approximately \$638,946, \$544,280, and \$243,241 respectively. In addition, a portion ranging from 35-100% of the MPSERS unfunded actuarial accrued liability (UAAL) stabilization rate is considered a contribution to the retiree healthcare plan.

**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 Sinking Fund 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 – Upcoming Accounting and Reporting Changes**

An upcoming reporting change comes from GASB's issuance of Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Statement No. 75 sets standards for governments that provide postemployment benefits other than pensions (OPEB). Similar to the GASB standards set for pension benefits, the Statement requires the District, as a cost-sharing employer participating in MPSERS, to recognize and report its proportionate share of the MPSERS' net OPEB liability as well as the related deferred inflows and outflows of resources, and expenses/expenditures. The Statement also addresses standards for OPEB note disclosures and required supplementary information. Statement No. 75 will be effective for the District's fiscal year ending June 30, 2018.



## **Required Supplemental Information**

**Hillsdale Community Schools**  
 Budgetary Comparison Schedule - General Fund  
 Year Ended June 30, 2017

	<b>Budgeted Amounts</b>		<b>Actual</b>
	<b>Original</b>	<b>Final</b>	
<b>Revenues:</b>			
Local sources	\$ 2,161,708	\$ 2,284,783	\$ 2,312,871
State sources	10,439,703	10,604,856	10,618,942
Federal sources	514,279	575,193	576,212
Interdistrict and other	137,000	139,851	139,853
Total revenues	<u>13,252,690</u>	<u>13,604,683</u>	<u>13,647,878</u>
<b>Expenditures:</b>			
Instruction:			
Basic programs	6,976,971	6,501,245	6,488,011
Added needs	1,418,084	1,752,113	1,736,365
Adult education	29,190	74,910	72,626
Support services:			
Pupil	197,512	200,141	199,000
Instructional staff	522,910	530,580	523,360
General administration	272,056	268,162	264,429
School administration	734,192	721,361	720,456
Business	283,968	260,598	259,454
Operation & maintenance	1,291,809	1,314,235	1,305,669
Pupil transportation	835,576	862,858	844,272
Central services	352,677	321,459	312,313
Athletic activities	354,940	365,247	354,051
Community services:			
Community activities	4,356	13,811	13,354
Debt service:			
Principal	91,000	88,944	87,703
Interest and other charges	4,000	3,000	2,986
Total expenditures	<u>13,369,241</u>	<u>13,278,664</u>	<u>13,184,049</u>
<b>Revenues Over (Under) Expenditures</b>	<u>(116,551)</u>	<u>326,019</u>	<u>463,829</u>
<b>Other Financing Sources (Uses):</b>			
Transfers out	-	(6,820)	(6,820)
Total other financing sources (uses)	<u>-</u>	<u>(6,820)</u>	<u>(6,820)</u>
<b>Net Changes in Fund Balances</b>	(116,551)	319,199	457,009
<b>Fund Balances - Beginning of Year</b>	<u>913,336</u>	<u>913,336</u>	<u>913,336</u>
<b>Fund Balances - End of Year</b>	<u>\$ 796,785</u>	<u>\$ 1,232,535</u>	<u>\$ 1,370,345</u>

**Hillsdale Community Schools**  
 Schedule of the District's Contributions to the MPSERS Plan  
 Last Three Fiscal Years (Amounts Determined Each Year as of June 30)

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

**Hillsdale Community Schools**

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

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

**Hillsdale Community Schools**  
Notes to Required Supplementary Information Pension Schedules  
Year Ended June 30, 2017

**Changes of Benefit Terms:**            There were no changes of benefit terms in 2016.

**Changes of Assumptions:**            There were no changes of benefit assumptions in 2016.