

Harper Creek
Community
Schools



Year Ended
June 30, 2018

Financial
Statements and
Single Audit Act
Compliance

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HARPER CREEK COMMUNITY SCHOOLS

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INDEPENDENT AUDITORS' REPORT

October 19, 2018

Board of Education
Harper Creek Community Schools
Battle Creek, 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 *Harper Creek Community Schools* (the "District"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the 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.

Independent 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 Harper Creek Community Schools as of June 30, 2018, and the respective changes in financial position thereof and the budgetary comparison of the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Implementation of GASB Statement No. 75

As described in Note 14, the District implemented the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, in the current year. Accordingly, beginning net position of governmental activities was restated. Our opinion is not modified with respect to this matter.

Required Supplementary Information

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining fund financial statements are presented for purposes of additional analysis and are 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 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 the District's internal control over financial reporting and compliance.

Rehmann Lobson LLC

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MANAGEMENT'S DISCUSSION AND ANALYSIS

HARPER CREEK COMMUNITY SCHOOLS

Management's Discussion and Analysis

As management of Harper Creek Community Schools, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year that ended June 30, 2018.

Financial Highlights

· Total net position	\$(46,233,555)
· Change in total net position	706,193
· Fund balances, governmental funds	5,018,125
· Change in fund balances, governmental funds	462,516
· Unassigned fund balance, general fund	2,957,467
· Change in fund balance, general fund	268,193
· Installment debt outstanding	49,461,199
· Change in installment debt	(6,694,127)

Overview of the Financial Statements

The discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between these reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the district include instruction, support services, food services, athletics, and community service. The District has no business-type activities as of and for the year ending June 30, 2018.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

HARPER CREEK COMMUNITY SCHOOLS

Management's Discussion and Analysis

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, capital projects fund, and 2015B debt service fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The District adopts an annual appropriated budget for its general and special revenue funds. A budgetary comparison statement has been provided for the general fund herein to demonstrate compliance with that budget. Budgets are not required for the debt service or capital projects funds.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. This is limited to this management's discussion and analysis and the schedules for the MPSERS pension and other postemployment benefit plans immediately following the notes to the financial statements. The combining statements, referred to earlier, in connection with nonmajor governmental funds are presented immediately following the required supplementary information.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, liabilities and deferred inflows exceeded assets and deferred outflows by \$46,233,555 at the close of the most recent fiscal year.

HARPER CREEK COMMUNITY SCHOOLS

Management's Discussion and Analysis

A portion of the District's net position reflects its investment in capital assets (e.g. land, buildings and improvements, vehicles, and furniture and equipment); less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its student population; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

	District's Net Position	
	Governmental Activities	
	2018	2017
Assets		
Current and other assets	\$ 7,841,908	\$ 7,138,247
Capital assets, net	<u>58,238,283</u>	<u>59,779,569</u>
Total assets	<u>66,080,191</u>	<u>66,917,816</u>
Deferred outflows of resources	<u>12,309,827</u>	<u>6,696,516</u>
Liabilities		
Other liabilities	58,168,969	41,064,411
Long-term debt	<u>63,791,134</u>	<u>65,749,087</u>
Total liabilities	<u>121,960,103</u>	<u>106,813,498</u>
Deferred inflows of resources	<u>2,663,470</u>	<u>115,865</u>
Net position:		
Net investment in capital assets	18,834,998	17,236,462
Restricted	634,449	467,719
Unrestricted (deficit)	<u>(65,703,002)</u>	<u>(51,019,212)</u>
Total net position	<u><u>\$(46,233,555)</u></u>	<u><u>\$(33,315,031)</u></u>

HARPER CREEK COMMUNITY SCHOOLS

Management's Discussion and Analysis

The government's net position showed an increase of \$706,193 during the current fiscal year.

	Statement of Activities	
	Governmental Activities	
	2018	2017
Program revenues:		
Charges for services	\$ 567,275	\$ 548,054
Operating grants and contributions	6,593,558	5,897,810
General revenues:		
Property taxes	6,746,915	6,635,899
Unrestricted state aid	17,415,830	17,027,161
Grants and contributions	2,468,322	2,269,670
Unrestricted investment earnings	6,892	12,244
Total revenues	<u>33,798,792</u>	<u>32,390,838</u>
Expenses:		
Instruction	18,375,454	17,507,166
Supporting services	9,120,652	8,925,626
Athletics	638,286	413,270
Community services and activities	114,221	97,597
Food service	1,136,635	1,065,405
Interest on long-term debt	1,920,537	1,884,773
Unallocated depreciation	1,786,814	2,229,540
Total expenses	<u>33,092,599</u>	<u>32,123,377</u>
Change in net position	706,193	267,461
Net position, beginning of year	(33,315,031)	(33,582,492)
Restatement for implementation of GASB 75	(13,624,717)	-
Net position, end of year	<u><u>\$(46,233,555)</u></u>	<u><u>\$(33,315,031)</u></u>

Governmental Activities

The District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, in fiscal year 2015 and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, in the current year. In addition to expanded disclosure requirements, the District is required to report its proportionate share of the MPSERS net pension liability and net other postemployment benefits liability on the statement of net position. This change has resulted in a negative total net position of governmental activities of \$46,233,555. Of this amount, \$(65,703,002) is unrestricted net position (deficit) and \$634,449 represents resources that are subject to external restrictions on how they may be used. The operating results of the general fund will have a significant impact on the change in unrestricted net position from year to year.

Financial Analysis of the Government's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental Funds. The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

HARPER CREEK COMMUNITY SCHOOLS

Management's Discussion and Analysis

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$5,018,125, an increase of \$462,516 in comparison with the prior year. Approximately 59% of this total amount, or \$2,957,467, constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of the combined fund balance has been labeled as nonspendable (inventory and/or prepaid), committed for capital projects or restricted for food service operations or debt service.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the general fund was \$2,957,467 while total fund balance was \$3,021,587. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance and total fund balance each represent approximately 11% of total expenditures.

The fund balance of the District's general fund increased by \$268,193. A comparison of the total 2016/2017 and 2017/2018 revenue and expenditure categories follows:

	2018	2017	Change from prior year	
			in dollars	as a percent
Revenues				
Local sources	\$ 6,384,828	\$ 6,192,311	\$ 192,517	3.1%
State sources	21,414,766	20,486,083	928,683	4.5%
Federal sources	402,468	279,727	122,741	43.9%
Total revenues	28,202,062	26,958,121	1,243,941	4.6%
Other financing sources				
Transfers in	12,796	12,953	(157)	-1.2%
Total revenues and other financing sources	\$28,214,858	\$ 26,971,074	\$ 1,243,784	4.6%
Expenditures				
Instruction	\$18,311,416	\$ 17,530,192	\$ 781,224	4.5%
Supporting services	8,857,389	8,613,038	244,351	2.8%
Athletics	637,062	413,418	223,644	54.1%
Community services and activities	113,980	97,653	16,327	16.7%
Debt service	26,818	26,818	-	0.0%
Total expenditures	\$27,946,665	\$ 26,681,119	\$ 1,265,546	4.7%

Revenue and transfers in has increased by 4.6% over 2016/2017 revenue figures and expenditures have increased by 4.7% from 2016/2017 expenditure amounts. The increase in revenue and transfers is a result of an increase in the per pupil amount from the state as well as an increase in the federal grants the district received. The expenditure increase is attributable to additional staff that were hired in the current year as well as the additional expenditures allowed in the federal grants.

General Fund Budgetary Highlights

During the fiscal year, the original budget was amended as additional information became known, including student counts and the final allocation amounts for the District's federal and Great Start Readiness Programs (GSRP) grants.

The change between the original and final amended budget for revenues was an increase of \$2,890,377. Local revenue changed by \$310,962 largely based on increases to the final taxable property values. State sources increased by \$2,415,104, a combination of the District's increase in pupils, and the increase of the state's level of funding of the retirement costs. Federal sources increased by \$164,311 to match the District's final allocation awards.

HARPER CREEK COMMUNITY SCHOOLS

Management's Discussion and Analysis

The change between the original and final amended budget for expenditures was an increase of \$2,438,167 over the original budget. Total instructional costs increased by \$1,781,970, which included the additional instructional staff and the increased retirement costs. The federal and GSRP budgets were also amended to match the district's final allocation awards.

The original budget for supporting services increased by \$318,347. The largest increase (\$112,782) was in guidance as a result of additional staffing in the department.

Overall, the actual general fund revenues were \$100,969 greater than the final amended budget, and the actual general fund expenditures were \$72,104 less than the final amended budget. There were no significant fluctuations between the actual general fund amounts and the final amended budget.

Capital Asset and Debt Administration

Capital Assets. The District's investment in capital assets for its governmental activities as of June 30, 2018, amounted to \$58,238,283 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, vehicles, and furniture and equipment.

	District's Capital Assets (Net of Depreciation)	
	2018	2017
Land	\$ 617,508	\$ 617,508
Buildings and improvements	56,477,733	58,012,780
Vehicles	852,934	827,025
Furniture and equipment	290,108	322,256
Total capital assets, net	\$ 58,238,283	\$ 59,779,569

Additional information on the District's capital assets can be found in the notes to the financial statements.

Long-Term Debt. At the end of the current fiscal year, the District had total long-term debt outstanding of \$63,791,134. Long-term debt at fiscal year-end included the following:

	2018	2017
Bonds payable	\$ 49,455,000	\$ 56,125,000
Capital lease	6,199	30,326
Bond premium	3,924,496	4,340,874
School bond loan fund	10,322,580	5,167,750
Compensated absences	82,859	85,137
Total long-term debt	\$ 63,791,134	\$ 65,749,087

Additional information on the District's long term debt can be found in the notes to the financial statements.

Outlook for the Future

With a focus on a balanced budget and a stable fund equity, the adopted 2018/2019 budget was built on a conservative student count along with the projected increase in the per pupil funding level. The District is focused on being able to financially reduce the impact of the Local Revenue Sharing Board's impact on the operating budget by reducing that projected revenue by 12.50% each year, transferring those funds to long-term projects.

HARPER CREEK COMMUNITY SCHOOLS

Management's Discussion and Analysis

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Office of the Superintendent at 7454 B Drive North, Battle Creek, Michigan 49014.

BASIC FINANCIAL STATEMENTS

HARPER CREEK COMMUNITY SCHOOLS

Statement of Net Position

June 30, 2018

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 3,177,878
Due from other governments	4,586,890
Inventory and prepaids	77,140
Capital assets not being depreciated	617,508
Capital assets being depreciated, net	<u>57,620,775</u>
Total assets	<u>66,080,191</u>
Deferred outflows of resources	
Deferred charges on refunding	1,257,410
Deferred pension amounts	10,126,327
Deferred other postemployment benefit amounts	<u>926,090</u>
Total deferred outflows of resources	<u>12,309,827</u>
Liabilities	
Accounts payable and accrued liabilities	2,844,333
Unearned revenue	255,767
Long-term debt:	
Due within one year	7,086,720
Due in more than one year	56,704,414
Net pension liability	41,079,377
Net other postemployment benefit liability	<u>13,989,492</u>
Total liabilities	<u>121,960,103</u>
Deferred inflows of resources	
Deferred pension amounts	2,190,523
Deferred other postemployment benefit amounts	<u>472,947</u>
Total deferred inflows of resources	<u>2,663,470</u>
Net position	
Net investment in capital assets	18,834,998
Restricted for food service operations	634,449
Unrestricted (deficit)	<u>(65,703,002)</u>
Total net position	<u><u>\$ (46,233,555)</u></u>

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

HARPER CREEK COMMUNITY SCHOOLS

Statement of Activities

For the Year Ended June 30, 2018

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Governmental activities				
Instruction	\$ 18,375,454	\$ 2,558	\$ 5,628,714	\$ (12,744,182)
Supporting services	9,120,652	-	74,718	(9,045,934)
Athletics	638,286	159,516	-	(478,770)
Community services and activities	114,221	-	-	(114,221)
Food service	1,136,635	405,201	890,126	158,692
Interest on long-term debt	1,920,537	-	-	(1,920,537)
Unallocated depreciation	1,786,814	-	-	(1,786,814)
Total	\$ 33,092,599	\$ 567,275	\$ 6,593,558	(25,931,766)
General revenues				
Property taxes:				
Operations				3,064,960
Debt service				3,681,955
Unrestricted state aid				17,415,830
Grants and contributions not restricted to specific programs				2,468,322
Unrestricted investment earnings				6,892
Total general revenues				26,637,959
Change in net position				706,193
Net position, beginning of year, as restated				(46,939,748)
Net position, end of year				\$ (46,233,555)

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

HARPER CREEK COMMUNITY SCHOOLS

Balance Sheet Governmental Funds June 30, 2018

	General	Capital Projects	2015B Debt Service
Assets			
Cash and cash equivalents	\$ 1,088,003	\$ 1,302,256	\$ 89,566
Due from other governments	4,546,374	-	-
Inventory	55,386	-	-
Prepays	8,734	-	-
Total assets	\$ 5,698,497	\$ 1,302,256	\$ 89,566
Liabilities			
Accounts payable	\$ 538,706	\$ 110,954	\$ -
Salaries and related expenditures payable	1,882,437	-	-
Unearned revenue	255,767	-	-
Total liabilities	2,676,910	110,954	-
Fund balances			
Nonspendable for inventory and prepaids	64,120	-	-
Restricted for:			
Food service operations	-	-	-
Debt service	-	-	89,566
Committed for capital projects	-	1,191,302	-
Unassigned	2,957,467	-	-
Total fund balances	3,021,587	1,191,302	89,566
Total liabilities and fund balances	\$ 5,698,497	\$ 1,302,256	\$ 89,566

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



Nonmajor Governmental Funds	Totals
\$ 698,053	\$ 3,177,878
40,516	4,586,890
13,020	68,406
-	8,734
<u>\$ 751,589</u>	<u>\$ 7,841,908</u>
\$ 35,919	\$ 685,579
-	1,882,437
-	255,767
<u>35,919</u>	<u>2,823,783</u>
13,020	77,140
621,429	621,429
81,221	170,787
-	1,191,302
-	2,957,467
<u>715,670</u>	<u>5,018,125</u>
<u>\$ 751,589</u>	<u>\$ 7,841,908</u>

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HARPER CREEK COMMUNITY SCHOOLS

Reconciliation

Fund Balances of Governmental Funds
to Net Position of Governmental Activities
June 30, 2018

Fund balances - total governmental funds	\$ 5,018,125
Amounts reported for <i>governmental activities</i> in the statement of net position are different because:	
Capital and other assets used in governmental activities are not financial resources therefore are not reported in the funds.	
Capital assets not being depreciated	617,508
Capital assets being depreciated, net	57,620,775
Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	
General obligation bonds payable	(49,455,000)
Capital leases payable	(6,199)
Unamortized bond premiums, net	(3,924,496)
School bond loan funds payable	(10,322,580)
Compensated absences	(82,859)
Unamortized deferred charges on bond refunding	1,257,410
Accrued interest on bonds payable	(276,317)
Certain pension and other postemployment benefit-related amounts, such as the net pension and other postemployment benefit liabilities and related deferred amounts are not due and payable in the current period or do not represent current financial resources and therefore are not reported in the funds.	
Net pension liability	(41,079,377)
Deferred outflows related to the net pension liability	10,126,327
Deferred inflows related to the net pension liability	(2,190,523)
Net other postemployment benefit liability	(13,989,492)
Deferred outflows related to the net other postemployment benefit liability	926,090
Deferred inflows related to the net other postemployment benefit liability	(472,947)
Net position of governmental activities	<u>\$ (46,233,555)</u>

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

HARPER CREEK COMMUNITY SCHOOLS

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2018

	General	Capital Projects	2015B Debt Service
Revenues			
Local sources	\$ 6,384,828	\$ 590,283	\$ 1,654,056
State sources	21,414,766	-	13,299
Federal sources	402,468	-	-
Total revenues	28,202,062	590,283	1,667,355
Expenditures			
Current:			
Instruction	18,311,416	-	-
Supporting services	8,857,389	-	-
Athletics	637,062	-	-
Community services and activities	113,980	-	-
Food service	-	-	-
Debt service:			
Principal	24,127	-	3,855,000
Interest	2,691	-	378,155
Other	-	-	1,455
Capital outlay	-	511,872	-
Total expenditures	27,946,665	511,872	4,234,610
Revenues over (under) expenditures	255,397	78,411	(2,567,255)
Other financing sources (uses)			
Issuance of long-term debt	-	-	2,570,448
Transfers in	12,796	-	12,352
Transfers out	-	-	-
Total other financing sources	12,796	-	2,582,800
Net change in fund balances	268,193	78,411	15,545
Fund balances, beginning of year	2,753,394	1,112,891	74,021
Fund balances, end of year	\$ 3,021,587	\$ 1,191,302	\$ 89,566

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



Nonmajor Governmental Funds	Totals
\$ 2,432,675	\$ 11,061,842
67,038	21,495,103
839,379	1,241,847
<u>3,339,092</u>	<u>33,798,792</u>
-	18,311,416
-	8,857,389
-	637,062
-	113,980
1,052,925	1,052,925
2,815,000	6,694,127
1,670,993	2,051,839
3,647	5,102
62,876	574,748
<u>5,605,441</u>	<u>38,298,588</u>
<u>(2,266,349)</u>	<u>(4,499,796)</u>
2,391,864	4,962,312
8,195	33,343
(33,343)	(33,343)
<u>2,366,716</u>	<u>4,962,312</u>
100,367	462,516
615,303	4,555,609
<u>\$ 715,670</u>	<u>\$ 5,018,125</u>

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HARPER CREEK COMMUNITY SCHOOLS

Reconciliation

Net Changes in Fund Balances of Governmental Funds
to Change in Net Position of Governmental Activities
For the Year Ended June 30, 2018

Net change in fund balances - total governmental funds \$ 462,516

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital assets purchased	326,849
Depreciation expense	(1,786,814)
Loss on disposal of capital assets	(81,321)

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term debt in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term debt in the statement of net position.

Issuance of long-term debt	(4,962,312)
Principal payments on long-term debt	6,694,127
Amortization of bond premium	416,378
Amortization of deferred charge on refunding	(115,683)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Change in accrued interest payable on bonds	(166,982)
Change in accrual for compensated absences	2,278
Change in the net pension liability and related deferred amounts	(171,211)
Change in the net other postemployment benefit liability and related deferred amounts	88,368

Change in net position of governmental activities \$ 706,193

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

HARPER CREEK COMMUNITY SCHOOLS

Statement of Revenues, Expenditures and Changes in Fund Balances

Budget and Actual - General Fund
For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Actual Over (under) Final Budget
Revenues				
Local sources:				
Current tax levy	\$ 3,031,754	\$ 3,064,960	\$ 3,064,960	\$ -
Interest on delinquent taxes	15,000	12,891	12,891	-
Tuition and transportation fees	-	1,375	2,558	1,183
Interest on investments	-	999	1,146	147
Other local revenue	2,955,567	3,233,058	3,303,273	70,215
Total local sources	6,002,321	6,313,283	6,384,828	71,545
State sources:				
Grants - unrestricted state aid	17,213,506	17,407,300	17,415,830	8,530
Grants - restricted:				
At Risk	690,217	741,409	750,528	9,119
Special education	728,939	795,650	795,650	-
Other	345,133	2,448,540	2,452,758	4,218
Total state sources	18,977,795	21,392,899	21,414,766	21,867
Federal sources:				
Title I	182,664	369,681	370,225	544
Title II	47,936	13,601	21,091	7,490
Title III	-	5,179	4,702	(477)
Title IV	-	6,450	6,450	-
Total federal sources	230,600	394,911	402,468	7,557
Total revenues	25,210,716	28,101,093	28,202,062	100,969
Expenditures				
Current:				
Instruction:				
Basic programs:				
Elementary	5,249,586	6,014,375	5,987,610	(26,765)
Middle School	4,222,835	4,537,439	4,514,424	(23,015)
High School	4,249,659	4,730,346	4,693,735	(36,611)
Ready Start	94,537	113,212	127,799	14,587
Added needs:				
At Risk	690,217	703,522	705,099	1,577
Special education	1,910,771	2,059,239	2,059,867	628
Title I	182,664	224,106	222,882	(1,224)
Total instruction	16,600,269	18,382,239	18,311,416	(70,823)

continued...

HARPER CREEK COMMUNITY SCHOOLS

Statement of Revenues, Expenditures and Changes in Fund Balances

Budget and Actual - General Fund
For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Actual Over (under) Final Budget
Expenditures (continued)				
Supporting services:				
Pupil:				
Guidance	\$ 980,817	\$ 1,093,599	\$ 1,087,066	\$ (6,533)
Other	63,000	93,894	94,624	730
Instructional staff:				
Staff development	252,256	227,924	234,324	6,400
Library	167,068	182,428	181,938	(490)
Technology	-	47,447	53,427	5,980
Administration:				
Board of Education	175,352	170,008	168,692	(1,316)
Central administration	609,889	591,652	589,880	(1,772)
School administration	1,629,022	1,523,784	1,515,058	(8,726)
Business:				
Fiscal services	262,329	266,660	265,739	(921)
Other business services	54,000	70,632	65,051	(5,581)
Operations and maintenance	2,576,349	2,666,786	2,701,209	34,423
Security services	60,000	60,000	54,918	(5,082)
Transportation	1,079,209	1,188,012	1,188,008	(4)
Other services	621,606	666,418	657,455	(8,963)
Total supporting services	<u>8,530,897</u>	<u>8,849,244</u>	<u>8,857,389</u>	<u>8,145</u>
Athletics	<u>422,611</u>	<u>646,159</u>	<u>637,062</u>	<u>(9,097)</u>
Community services and activities:				
Community services direction	-	28,895	28,895	-
Community services activities	-	3,337	3,282	(55)
Custody and care of children	-	82,077	81,803	(274)
Total community services and activities	<u>-</u>	<u>114,309</u>	<u>113,980</u>	<u>(329)</u>
Debt service:				
Principal	24,127	24,127	24,127	-
Interest	2,698	2,691	2,691	-
Total debt service	<u>26,825</u>	<u>26,818</u>	<u>26,818</u>	<u>-</u>
Total expenditures	<u>25,580,602</u>	<u>28,018,769</u>	<u>27,946,665</u>	<u>(72,104)</u>

continued...

HARPER CREEK COMMUNITY SCHOOLS

Statement of Revenues, Expenditures and Changes in Fund Balances

Budget and Actual - General Fund
For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Actual Over (under) Final Budget
Revenues over (under) expenditures	\$ (369,886)	\$ 82,324	\$ 255,397	\$ 173,073
Other financing sources				
Transfers in	15,000	12,796	12,796	-
Net change in fund balance	(354,886)	95,120	268,193	173,073
Fund balance, beginning of year	2,753,394	2,753,394	2,753,394	-
Fund balance, end of year	<u>\$ 2,398,508</u>	<u>\$ 2,848,514</u>	<u>\$ 3,021,587</u>	<u>\$ 173,073</u>

concluded.

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

HARPER CREEK COMMUNITY SCHOOLS

Statement of Fiduciary Assets and Liabilities

Agency Fund

June 30, 2018

Assets

Cash and cash equivalents	<u>\$ 413,313</u>
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Liabilities

Due to student groups	<u>\$ 413,313</u>
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The accompanying notes are an integral part of these financial statements.

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NOTES TO FINANCIAL STATEMENTS

HARPER CREEK COMMUNITY SCHOOLS

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Harper Creek Community Schools (the “District”) has followed the guidelines of the Governmental Accounting Standards Board and has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relationships with the District.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District had no *business-type activities* during the year.

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 or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements, except for the agency funds, which do not have a measurement focus. Revenues are 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 revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

HARPER CREEK COMMUNITY SCHOOLS

Notes to Financial Statements

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

The District reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those accounted for and reported in another fund.

The *capital projects fund* is used to account for all financial resources restricted, committed or assigned to expenditure for the acquisition or construction of capital assets.

The *2015B debt service fund* accounts for all financial resources restricted, committed or assigned to expenditure for principal and interest for the 2015 Series B refunding bonds.

Additionally, the District reports the following fund types:

The *special revenue fund* is used to account and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects.

The *debt service funds* are used to account for and report financial resources that are restricted, committed, or assigned to expenditures for principal and interest.

The *agency fund* accounts for assets held for other groups and organizations and is custodial in nature.

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Equity

Deposits

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and payables

The District follows the practice of recording revenues that have been earned but not yet received as receivables. Receivables consist primarily of State Aid payments from the State of Michigan and Federal grant funds earned but not yet collected. No amounts have been identified as potentially uncollectible by management, and therefore, no amount has been recorded as a provision for bad debts.

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non current portion of interfund loans).

Accounts payable and other payables reflected in the financial statements are based on when the liability is incurred.

HARPER CREEK COMMUNITY SCHOOLS

Notes to Financial Statements

Inventory and prepaids

Inventory is valued at the lower of cost (first in, first out) or market. Inventory in the general and special revenue funds consists of expendable supplies held for consumption. USDA donated commodities in the food service fund are recorded at fair value. The cost is recorded as an expenditure when consumed rather than when purchased. Reported inventories are equally offset by nonspendable fund balance which indicates that they do not constitute “available spendable resources” even though they are a component of net current position.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital assets

Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 or computer equipment with 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 acquisition cost as of the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the District are depreciated using the straight-line method over the following estimated useful lives:

	Years
Buildings and improvements	5-50
Vehicles	5-10
Furniture and equipment	5-20

Salaries payable and accrued employee benefits

A liability is recorded at June 30 for those amounts owed to teachers and other employees of the District who do not work during the summer when school is not in session but have elected to have their salaries paid over an entire year. This has the effect of properly charging their salaries to expenditures in the fiscal year in which their services are received, even though they are not paid until July and August of the following fiscal year.

The liability for accrued retirement and the employer share of FICA related to the salaries payable has been recorded as has the liability for employee health insurances for the months of July and August. The District pays these insurances for this period as a part of the compensation for services rendered in the preceding school year.

HARPER CREEK COMMUNITY SCHOOLS

Notes to Financial Statements

Deferred outflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The District reports deferred outflows for the charge on refunding. This amount represents the difference in the carrying value of refunded debt and its reacquisition price and is deferred and amortized over the shorter of the life of the refunded or refunding debt. The District also reports deferred outflows of resources related to the net pension liability and net other postemployment benefit liability. A portion of these costs represent contributions to the plan subsequent to the plan measurement date.

Unearned revenues

Unearned revenue is comprised of amounts received prior to the delivery of goods/service or expenditure on allowable costs.

Deferred inflows of resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time. The governmental funds also report unavailable revenues, which arise only under a modified accrual basis of accounting that are reported as deferred inflows of resources. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The District reported no deferred inflows in governmental funds at June 30, 2018. In the government-wide financial statements, the District reports deferred inflows of resources related to pension and other postemployment benefit liabilities.

Compensated absences

The District has recorded accumulated terminal leave payable in accordance with generally accepted accounting principles for employees that have become or are expected to become vested after twenty years of service. The liability is equal to accrued sick days of such employees, but is capped at 100 days. Eligible employees have their sick pay benefits computed at one-half of the employee's current daily rate at the time of retirement. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

Long-term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities on the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line interest method. Bonds payable are reported net of the applicable bond premium or discount.

HARPER CREEK COMMUNITY SCHOOLS

Notes to Financial Statements

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

Fund equity

Governmental funds report *nonspendable fund balance* for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually require to be maintained intact. *Restricted fund balance* is reported when externally imposed constraints are placed on the use of the resources by grantors, contributors, or laws or regulations of other governments. *Committed fund balance*, if any, is reported for amounts that can be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision making authority, the Board of Education. A formal resolution of the Board of Education is required to establish, modify or rescind a fund balance commitment. As applicable, the District reports *assigned fund balance* for amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. The Board of Education has delegated the authority to assign fund balance to the Superintendent or his designee. *Unassigned fund balance* is the residual classification for the general fund.

When the District incurs an expenditure for purposes for which various fund balance classifications can be used, it is the District's policy to use restricted fund balance first, then committed fund balance, assigned fund balance, and finally unassigned fund balance.

Interfund transactions

During the course of normal operations, the District has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers. Operating subsidies are also recorded as transfers. The amounts recorded as subsidies or advances are determined by the District. Balances outstanding at year-end are reported as due to/from other funds.

Pensions and Other Postemployment Benefits

For purposes of measuring the net pension liability and net other postemployment benefits liability, deferred outflows of resources and deferred inflows of resources related to pensions and other postemployment benefits, and pension and other postemployment benefit expense, information about the fiduciary net position of the Plan and additions to/deductions from the plan fiduciary net position have been determined on the same basis as they are reported by the plan. 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.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

HARPER CREEK COMMUNITY SCHOOLS

Notes to Financial Statements

2. STATE OF MICHIGAN SCHOOL AID

The District reports State of Michigan school aid in the fiscal year in which the District is entitled to the revenue as provided by State of Michigan school aid appropriation acts. State funding represented 76 percent of the District’s general fund revenue during the 2018 fiscal year.

3. BUDGETARY COMPLIANCE

Budgets and budgetary accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

The general and special revenue funds are under formal budgetary control. Budgets shown in the financial statements are adopted annually on a basis consistent with generally accepted accounting principles (GAAP), and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted or as amended by the Board of Education. The budgets for the general and special revenue funds are adopted on a functional basis.

Excess of expenditures over appropriations in budgetary funds

During the year ended June 30, 2018, the District incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

	Total Appropriations	Total Expenditures	Budget Variance
General fund			
Current:			
Instruction -			
Added needs	\$ 2,986,867	\$ 2,987,848	\$ 981
Supporting services:			
Instructional staff	457,799	469,689	11,890
Operations and maintenance	2,666,786	2,701,209	34,423
Special revenue - food service fund			
Food service	1,030,117	1,052,925	22,808

HARPER CREEK COMMUNITY SCHOOLS

Notes to Financial Statements

4. DEPOSITS

A reconciliation of cash as shown on the Statement of Net Position and Statement of Fiduciary Assets and Liabilities follows:

Statement of Net Position	
Cash and cash equivalents	\$ 3,177,878
Statement of Fiduciary Assets and Liabilities	
Agency Fund -	
Cash and cash equivalents	<u>413,313</u>
Total	<u>\$ 3,591,191</u>
Deposits	
Checking and savings accounts	<u>\$ 3,591,191</u>

Statutory Authority

State statutes authorize the District to invest in:

Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills, or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.

Certificates of deposit insured by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.

Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.

Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.

Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.

Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

HARPER CREEK COMMUNITY SCHOOLS

Notes to Financial Statements

Deposit and investment risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the list of authorized investments above. 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 as identified in the list of authorized investments above. The Districts' investment policy does not have specific limits in excess of state law on investment credit risk. The District had no investments at year-end.

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. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year end, \$3,987,124 of the District's bank balance of \$4,237,124 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on concentration of credit risk. The District had no investments at year-end.

HARPER CREEK COMMUNITY SCHOOLS

Notes to Financial Statements

5. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2018 was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Capital assets, not being depreciated:					
Land	\$ 617,508	\$ -	\$ -	\$ -	\$ 617,508
Capital assets, being depreciated:					
Buildings and improvements	80,119,829	-	-	-	80,119,829
Vehicles	2,922,616	296,100	(564,186)	-	2,654,530
Furniture and equipment	926,037	30,749	-	-	956,786
	<u>83,968,482</u>	<u>326,849</u>	<u>(564,186)</u>	<u>-</u>	<u>83,731,145</u>
Less accumulated depreciation for:					
Buildings and improvements	(22,107,049)	(1,535,047)	-	-	(23,642,096)
Vehicles	(2,095,591)	(188,870)	482,865	-	(1,801,596)
Furniture and equipment	(603,781)	(62,897)	-	-	(666,678)
	<u>(24,806,421)</u>	<u>(1,786,814)</u>	<u>482,865</u>	<u>-</u>	<u>(26,110,370)</u>
Total capital assets being depreciated, net	<u>59,162,061</u>	<u>(1,459,965)</u>	<u>(81,321)</u>	<u>-</u>	<u>57,620,775</u>
Governmental activities capital assets, net	<u>\$ 59,779,569</u>	<u>\$ (1,459,965)</u>	<u>\$ (81,321)</u>	<u>\$ -</u>	<u>\$ 58,238,283</u>

Depreciation expense of \$1,786,814 was charged to the function "Unallocated depreciation", and not allocated to other functions.

Of the amounts reported in capital assets, \$111,913 of furniture and equipment was purchased through a capital lease. Related accumulated depreciation at year-end amounted to \$92,408.

HARPER CREEK COMMUNITY SCHOOLS

Notes to Financial Statements

6. PAYABLES

Accounts payable and accrued liabilities as of year end for the District's individual major funds and nonmajor funds in the aggregate, are as follows:

	General	Capital Projects	Nonmajor Funds	Total
Fund Financial Statements				
Accounts payable	\$ 538,706	\$ 110,954	\$ 35,919	\$ 685,579
Salaries and related expenditures payable	1,882,437	-	-	1,882,437
	<u>\$ 2,421,143</u>	<u>\$ 110,954</u>	<u>\$ 35,919</u>	<u>2,568,016</u>
Government-wide Financial Statements				
Accrued interest on long-term debt				<u>276,317</u>
				<u>\$ 2,844,333</u>

7. INTERFUND TRANSFERS

For the year ended June 30, 2018, interfund transfers consisted of the following:

	Transfers out	Transfers in
General Fund	\$ -	\$ 12,796
2015B Debt Service Fund	-	12,352
Nonmajor governmental funds	<u>33,343</u>	<u>8,195</u>
	<u>\$ 33,343</u>	<u>\$ 33,343</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

For the year ended June 30, 2018, the District transferred funds to the general fund from the food service fund to settle allocable costs between the food service and the general fund. Additionally, funds were transferred within the debt service funds to cover debt service payments.

HARPER CREEK COMMUNITY SCHOOLS

Notes to Financial Statements

8. LONG-TERM DEBT

Long-term debt and other obligations of the District at June 30, 2018, are summarized as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
General obligation bonds payable	\$ 56,125,000	\$ -	\$ (6,670,000)	\$ 49,455,000	\$ 6,660,000
Capital lease	30,326	-	(24,127)	6,199	6,199
Subtotal - installment debt	56,155,326	-	(6,694,127)	49,461,199	6,666,199
Bond premium	4,340,874	-	(416,378)	3,924,496	416,378
School bond loan fund	5,167,750	5,154,830	-	10,322,580	-
Compensated absences	85,137	5,489	(7,767)	82,859	4,143
Total long-term debt	<u>\$ 65,749,087</u>	<u>\$ 5,160,319</u>	<u>\$ (7,118,272)</u>	<u>\$ 63,791,134</u>	<u>\$ 7,086,720</u>

Bonds payable consist of the following issues:

General obligation bonds

\$18,245,000 2015 Series A Refunding Bonds, due in annual installments of \$1,300,000 to \$2,150,000 through the year 2024; interest at 4.00% \$ 12,665,000

\$20,300,000 2015 Series B Refunding Bonds (taxable), due in annual installments of \$3,720,000 to \$4,455,000 through the year 2021; interest at 1.31% to 2.74% 12,725,000

\$8,715,000 2016 Refunding Bonds, due in annual installments of \$600,000 to \$2,070,000 through the year 2029; interest at 4.00% 8,715,000

\$15,350,000 2017 Refunding Bonds, due in annual installments of \$455,000 to \$2,820,000 through the year 2033; interest at 2.00% to 5.00% 15,350,000

Total general obligation bonds \$ 49,455,000

Capital leases

\$111,913 Capital Lease Agreement, due in monthly installments of \$2,082 through the year 2019; including interest at 4.40% \$ 6,199

Compensated absences payable are generally expected to be liquidated by the general fund when due.

HARPER CREEK COMMUNITY SCHOOLS

Notes to Financial Statements

Future principal and interest payment requirements on general obligation bonds payable are as follows:

Year Ended June 30,	Principal	Interest	Total
2019	\$ 6,660,000	\$ 1,868,090	\$ 8,528,090
2020	6,840,000	1,686,684	8,526,684
2021	7,045,000	1,480,251	8,525,251
2022	2,800,000	1,254,450	4,054,450
2023	2,770,000	1,142,450	3,912,450
2024-2028	13,640,000	4,087,750	17,727,750
2029-2033	9,700,000	1,143,000	10,843,000
Totals	\$ 49,455,000	\$ 12,662,675	\$ 62,117,675

Future principal and interest payment requirements on capital leases payable are as follows:

Year Ended June 30,	Principal	Interest	Total
2019	\$ 6,199	\$ 46	\$ 6,245

School Bond Loan Fund

The school bond loan fund represents amounts borrowed from the State of Michigan School Bond Loan program to supplement property tax revenue for making payments on the District's general obligation bonds. Although interest accrues each year, no payment is due until such time as the District's property tax revenue is sufficient to support the debt service requirements on the general obligation bonds. Changes in principal and interest were as follows:

	Principal	Accreted Interest	Total
Beginning balance	\$ 5,131,178	\$ 36,572	\$ 5,167,750
Additions	4,962,312	192,518	5,154,830
Ending balance	<u>\$ 10,093,490</u>	<u>\$ 229,090</u>	<u>\$ 10,322,580</u>

9. RISK MANAGEMENT

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The District has purchased commercial insurance for general liability, property and casualty and health claims and is self-insured for claims relating to employee injuries/workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

HARPER CREEK COMMUNITY SCHOOLS

Notes to Financial Statements

10. PROPERTY TAXES

Property taxes are assessed as of December 31, and attach as an enforceable lien on property as of May 1 of the following year. Taxes are levied on July 1 by Emmett, Fredonia, Leroy, Marshall, Newton, and Pennfield Townships and the City of Battle Creek, whose all or portions of boundaries include property within the District, and are due on September 30. Delinquent real taxes are advanced to the District by the Revolving Tax Funds of Calhoun County.

11. PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS

Plan Description

The Michigan Public School Employees' Retirement System (the "System" or MPSERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (the "State") originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. The board consists of twelve members - eleven appointed by the Governor and the State Superintendent of Instruction, who serves as an ex-officio member.

The System's pension plan was established by the State to provide retirement, survivor and disability benefits to public school employees. In addition, the System's health plan provides all retirees with the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act (1980 PA 300 as amended).

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

The System's financial statements are available at the ORS website at www.michigan.gov/orsschools.

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 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.

A DB member plan member who leaves Michigan public school employment may request a refund of his or her member contributions to the retirement system account if applicable. A refund cancels a former member's rights to future benefits. However, returning members who previously received a refund of their contributions may reinstate their service through repayment of the refund upon satisfaction of certain requirements.

HARPER CREEK COMMUNITY SCHOOLS

Notes to Financial Statements

Other Postemployment 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 Other Postemployment Benefits, members who first worked on or after July 1, 2008 (MIP-Plus plan members) have a graded premium subsidy based on career length where they accrue credit towards their insurance premiums in retirement, not to exceed the maximum allowable by statute. Public Act 300 of 2012 sets the maximum subsidy at 80% beginning January 1, 2013; 90% for those Medicare eligible and enrolled in the insurances as of that date. 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 Michigan Public School Employees Retirement System, who earned service credit in the 12 months ending September 3, 2012 or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their retirement healthcare. Any changes to a member's healthcare benefit are effective as of the member's transition date, which is defined as the first day of the pay period that begins on or after February 1, 2013.

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

Contributions

Employers are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of active and retired members. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2016 valuation will be amortized over a 22-year period for the 2017 fiscal year.

HARPER CREEK COMMUNITY SCHOOLS

Notes to Financial Statements

The table below summarizes pension contribution rates in effect for fiscal year 2018:

Benefit Structure	Member Rates	Employer Rates
Basic	0.00% - 4.00%	17.89% - 19.03%
Member Investment Plan (MIP)	3.00% - 7.00%	17.89% - 19.03%
Pension Plus	3.00% - 6.40%	16.61% - 18.40%
Pension Plus 2	6.20%	19.74%
Defined Contribution	0.00%	13.54% - 15.27%

Required contributions to the pension plan from the District were \$4,417,200 for the year ended June 30, 2018.

The table below summarizes OPEB contribution rates in effect for fiscal year 2018:

Benefit Structure	Member Rates	Employer Rates
Premium Subsidy	3.00%	5.91% - 7.67%
Personal Healthcare Fund (PHF)	0.00%	5.69% - 7.42%

Required contributions to the OPEB plan from the District were \$1,023,873 for the year ended June 30, 2018.

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

At June 30, 2018, the District reported a liability of \$41,079,377 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 2016. The District's proportion 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 pension contributions required from all applicable employers during the measurement period. At September 30, 2017, the District's proportion was 0.15852%, which was an increase of 0.00549% from its proportion measured as of September 30, 2016.

HARPER CREEK COMMUNITY SCHOOLS

Notes to Financial Statements

For the year ended June 30, 2018, the District recognized pension expense of \$4,589,210. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Differences between expected and actual experience	\$ 357,008	\$ 201,568	\$ 155,440
Changes in assumptions	4,500,572	-	4,500,572
Net difference between projected and actual earnings on pension plan investments	-	1,963,864	(1,963,864)
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,169,474	25,091	1,144,383
	<u>6,027,054</u>	<u>2,190,523</u>	<u>3,836,531</u>
District contributions subsequent to the measurement date	4,099,273	-	4,099,273
	<u>4,099,273</u>	<u>-</u>	<u>4,099,273</u>
Total	<u>\$ 10,126,327</u>	<u>\$ 2,190,523</u>	<u>\$ 7,935,804</u>

\$4,099,273 reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Amount
2019	\$ 1,079,662
2020	1,762,528
2021	930,486
2022	<u>63,855</u>
Total	<u>\$ 3,836,531</u>

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

At June 30, 2018, the District reported a liability of \$13,989,492 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 2016. The District's proportion 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 OPEB contributions required from all applicable employers during the measurement period. At September 30, 2017, the District's proportion was 0.15798%.

HARPER CREEK COMMUNITY SCHOOLS

Notes to Financial Statements

For the year ended June 30, 2018, the District recognized OPEB expense of \$935,982. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Differences between expected and actual experience	\$ -	\$ 148,947	\$ (148,947)
Net difference between projected and actual earnings on OPEB plan investments	-	324,000	(324,000)
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,159	-	1,159
	<u>1,159</u>	<u>472,947</u>	<u>(471,788)</u>
District contributions subsequent to the measurement date	924,931	-	924,931
	<u>924,931</u>	<u>-</u>	<u>924,931</u>
Total	<u>\$ 926,090</u>	<u>\$ 472,947</u>	<u>\$ 453,143</u>

\$924,931 reported as deferred outflows of resources related to OPEB resulting from 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 OPEB will be recognized in pension expense as follows:

Year Ended June 30,	Amount
2019	\$ (114,030)
2020	(114,030)
2021	(114,030)
2022	(114,030)
2023	<u>(15,668)</u>
Total	<u>\$ (471,788)</u>

HARPER CREEK COMMUNITY SCHOOLS

Notes to Financial Statements

Actuarial 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. The total pension and OPEB liabilities in the September 30, 2016 actuarial valuation were determined using the following actuarial assumptions, applied to all periods included in the measurement:

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%
OPEB plans	7.5%
Projected salary increases	3.5% - 12.3%, including wage inflation at 3.5%
Cost of living adjustments	3% annual non-compounded for MIP members
Healthcare cost trend rate	7.5% Year 1 graded to 3.5% Year 12
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.
Other OPEB assumptions:	
Opt out assumptions	21% of eligible participants hired before July 1, 2008 and 30% of those hired after June 30, 2008 are assumed to opt out of the retiree health plan
Survivor coverage	80% of male retirees and 67% of female retirees are assumed to have coverages continuing after the retiree's death
Coverage election at retirement	75% of male and 60% of female future retirees are assumed to elect coverage for 1 or more dependents.

Assumption changes as a result of an experience study for the period 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, 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. The recognition period for pension liabilities is 4.5188 years which is the average of the expected remaining service lives of all employees. The recognition period for OPEB liabilities is 5.4744 years which is the average of the expected remaining service lives of all employees. The recognition period for assets is 5 years.

HARPER CREEK COMMUNITY SCHOOLS

Notes to Financial Statements

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on 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. Best estimates of arithmetic real rates of return for each major asset class included in the plan's target asset allocation as of September 30, 2017, are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
Domestic equity pools	28.00%	5.60%	1.56%
Alternative investment pools	18.00%	8.70%	1.57%
International equity	16.00%	7.20%	1.15%
Fixed income pools	10.50%	-0.10%	-0.01%
Real estate and infrastructure pools	10.00%	4.20%	0.42%
Absolute return pools	15.50%	5.00%	0.78%
Short-term investment pools	2.00%	-0.90%	-0.02%
	100.00%		5.45%
Inflation			2.05%
Investment rate of return			7.50%

Discount Rate

A discount rate of 7.5% was used to measure the total pension and OPEB liabilities (7.0% for the Pension Plus plan, a hybrid plan provided through non-university employers only). This discount rate was based on the long term expected rate of return on pension and 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. Based on these assumptions, the pension and 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 and OPEB plan investments was applied to all periods of projected benefit payments to determine the total pension and OPEB liabilities.

HARPER CREEK COMMUNITY SCHOOLS

Notes to Financial Statements

Sensitivity of District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.5% (7.0% for the Hybrid 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 1 percentage point lower or 1 percentage higher:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
District's proportionate share of the net pension liability	\$ 53,512,765	\$ 41,079,377	\$ 30,611,256

Sensitivity of District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the 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 1 percentage point lower or 1 percentage higher:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
District's proportionate share of the net OPEB liability	\$ 16,385,739	\$ 13,989,492	\$ 11,955,829

Sensitivity of District's Proportionate Share of the Net OPEB Liability to Healthcare Cost Trend Rate

The following presents the 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 1 percentage point lower or 1 percentage higher:

	1% Decrease (6.5%)	Current Healthcare Cost Trend Rate (7.5%)	1% Increase (8.5%)
District's proportionate share of the net OPEB liability	\$ 11,847,220	\$ 13,989,492	\$ 16,421,894

Pension and OPEB Plans Fiduciary Net Position

Detailed information about the pension and OPEB plan's fiduciary net position is available in the separately issued MPSERS financial statements available on the State of Michigan Office of Retirement Services website at www.michigan.gov/orsschools.

HARPER CREEK COMMUNITY SCHOOLS

Notes to Financial Statements

Payable to the Pension Plan

At June 30, 2018, the District reported a payable of \$510,600 for the outstanding amount of pension contributions to the Plan required for the year ended June 30, 2018.

Payable to the OPEB Plan

At June 30, 2018, the District reported a payable of \$89,868 for the outstanding amount of OPEB contributions to the Plan required for the year ended June 30, 2018.

12. NET INVESTMENT IN CAPITAL ASSETS

The composition of net investment in capital assets as of June 30, 2018, was as follows:

Capital assets not being depreciated	\$ 617,508
Capital assets being depreciated, net	57,620,775
Installment debt	(49,461,199)
Non-capital related debt	12,725,000
Bond premium	(3,924,496)
Deferred charge on bond refunding	<u>1,257,410</u>
Net investment in capital assets	<u>\$ 18,834,998</u>

13. SUBSEQUENT EVENTS

Copier Lease

On July 26, 2018, the District entered into an operating lease for 37 copiers. Payments are due monthly in the amount of \$2,660 for 60 months.

14. RESTATEMENT

The District adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, in the current year. As a result of this change, beginning net position of governmental activities was decreased by \$13,624,717.



REQUIRED SUPPLEMENTARY INFORMATION

HARPER CREEK COMMUNITY SCHOOLS

Required Supplementary Information MPSERS Cost-Sharing Multiple-Employer Plan

Pension Required Supplementary Information

Schedule of the District's Proportionate Share of the Net Pension Liability

	Year Ended June 30,			
	2015	2016	2017	2018
District's proportion of the net pension liability	\$ 33,416,465	\$ 37,205,798	\$ 38,179,920	\$ 41,079,377
District's proportionate share of the net pension liability	0.15171%	0.15233%	0.15303%	0.15852%
District's covered payroll	\$ 12,966,916	\$ 12,870,674	\$ 12,939,039	\$ 13,453,797
District's proportionate share of the net pension liability as a percentage of its covered payroll	257.71%	289.07%	295.08%	305.34%
Plan fiduciary net position as a percentage of the total pension liability	66.20%	63.17%	63.27%	64.21%

The amounts presented for each fiscal year were determined as of September 30 of the preceding year.

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Schedule of the District's Pension Contributions

	Year Ended June 30,			
	2015	2016	2017	2018
Statutorily required contribution	\$ 2,752,177	\$ 3,664,574	\$ 3,720,967	\$ 4,417,200
Contributions in relation to the statutorily required contribution	<u>(2,752,177)</u>	<u>(3,664,574)</u>	<u>(3,720,967)</u>	<u>(4,417,200)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 12,960,617	\$ 12,890,178	\$ 13,498,334	\$ 13,828,927
Contributions as a percentage of covered payroll	21.23%	28.43%	27.57%	31.94%

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

HARPER CREEK COMMUNITY SCHOOLS

Required Supplementary Information MPSERS Cost-Sharing Multiple-Employer Plan

Other Postemployment Benefit (OPEB) Required Supplementary Information

Schedule of the District's Proportionate Share of the Net Other Postemployment Benefit Liability

	Year Ended June 30, 2018
District's proportion of the net OPEB liability	\$ 13,989,492
District's proportionate share of the net OPEB liability	0.15798%
District's covered payroll	\$ 13,453,797
District's proportionate share of the net OPEB liability as a percentage of its covered payroll	103.98%
Plan fiduciary net position as a percentage of the total OPEB liability	36.39%

The amounts presented for each fiscal year were determined as of September 30 of the preceding year.

Note: GASB 75 was implemented in fiscal year 2018. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Schedule of the District's Other Postemployment Benefit Contributions

	Year Ended June 30, 2018
Statutorily required contribution	\$ 1,023,873
Contributions in relation to the statutorily required contribution	<u>(1,023,873)</u>
Contribution deficiency (excess)	<u>\$ -</u>
District's covered payroll	\$ 13,828,927
Contributions as a percentage of covered payroll	7.40%

Note: GASB 75 was implemented in fiscal year 2018. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

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COMBINING FUND STATEMENTS

HARPER CREEK COMMUNITY SCHOOLS

Combining Balance Sheet Nonmajor Governmental Funds June 30, 2018

	Special Revenue	Debt Service		
	Food Service	2017 Debt Service	2016 Debt Service	2015 Debt Service
Assets				
Cash and cash equivalents	\$ 616,832	\$ 21,743	\$ 6,000	\$ 53,343
Due from other governments	40,516	-	-	-
Inventory	13,020	-	-	-
Total assets	<u>\$ 670,368</u>	<u>\$ 21,743</u>	<u>\$ 6,000</u>	<u>\$ 53,343</u>
Liabilities				
Accounts payable	\$ 35,919	\$ -	\$ -	\$ -
Fund balances				
Nonspendable	13,020	-	-	-
Restricted	621,429	21,743	6,000	53,343
Total fund balances	<u>634,449</u>	<u>21,743</u>	<u>6,000</u>	<u>53,343</u>
Total liabilities and fund balances	<u>\$ 670,368</u>	<u>\$ 21,743</u>	<u>\$ 6,000</u>	<u>\$ 53,343</u>



Debt Service		
2008 Debt Service	2007 Debt Service	Total
\$ 135	\$ -	\$ 698,053
-	-	40,516
-	-	13,020
<u>\$ 135</u>	<u>\$ -</u>	<u>\$ 751,589</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 35,919</u>
-	-	13,020
<u>135</u>	<u>-</u>	<u>702,650</u>
<u>135</u>	<u>-</u>	<u>715,670</u>
<u>\$ 135</u>	<u>\$ -</u>	<u>\$ 751,589</u>

HARPER CREEK COMMUNITY SCHOOLS

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Nonmajor Governmental Funds
For the Year Ended June 30, 2018

	Special Revenue	Debt Service		
	Food Service	2017 Debt Service	2016 Debt Service	2015 Debt Service
Revenues				
Local sources	\$ 405,201	\$ 470,392	\$ 139,581	\$ 1,138,018
State sources	50,747	3,782	1,122	9,143
Federal sources	839,379	-	-	-
Total revenues	1,295,327	474,174	140,703	1,147,161
Expenditures				
Current -				
Food service	1,052,925	-	-	-
Debt service:				
Principal	-	-	-	2,140,000
Interest	-	702,350	348,600	592,199
Other	-	571	838	1,552
Capital outlay	62,876	-	-	-
Total expenditures	1,115,801	702,921	349,438	2,733,751
Revenue over (under) expenditures	179,526	(228,747)	(208,735)	(1,586,590)
Other financing sources (uses)				
Issuance of long-term debt	-	236,751	153,935	1,591,944
Transfers in	-	7,613	582	-
Transfers out	(12,796)	-	-	-
Total other financing sources (uses)	(12,796)	244,364	154,517	1,591,944
Net change in fund balances	166,730	15,617	(54,218)	5,354
Fund balances, beginning of year	467,719	6,126	60,218	47,989
Fund balances, end of year	\$ 634,449	\$ 21,743	\$ 6,000	\$ 53,343



Debt Service		
2008 Debt Service	2007 Debt Service	Total
\$ 279,467	\$ 16	\$ 2,432,675
2,244	-	67,038
-	-	839,379
<u>281,711</u>	<u>16</u>	<u>3,339,092</u>
-	-	1,052,925
675,000	-	2,815,000
27,844	-	1,670,993
623	63	3,647
-	-	62,876
<u>703,467</u>	<u>63</u>	<u>5,605,441</u>
<u>(421,756)</u>	<u>(47)</u>	<u>(2,266,349)</u>
409,234	-	2,391,864
-	-	8,195
<u>(12,867)</u>	<u>(7,680)</u>	<u>(33,343)</u>
<u>396,367</u>	<u>(7,680)</u>	<u>2,366,716</u>
(25,389)	(7,727)	100,367
<u>25,524</u>	<u>7,727</u>	<u>615,303</u>
<u>\$ 135</u>	<u>\$ -</u>	<u>\$ 715,670</u>

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SINGLE AUDIT ACT COMPLIANCE

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INDEPENDENT AUDITORS' REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY THE UNIFORM GUIDANCE

October 19, 2018

Board of Education
Harper Creek Community Schools
Battle Creek, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of *Harper Creek Community Schools* (the "District") as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated October 19, 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 purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (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 basic financial statements and certain other 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 expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



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HARPER CREEK COMMUNITY SCHOOLS

Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2018

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number	Approved Grant Award Amount
U.S. Department of Agriculture				
Child Nutrition Cluster:				
School Breakfast Program	10.553	MDE	171970	\$ 152,157
School Breakfast Program	10.553	MDE	181970	144,161
National School Lunch Sec. 11- Free & Reduced	10.555	MDE	171960	484,333
National School Lunch Sec. 11- Free & Reduced	10.555	MDE	181960	451,701
National School Lunch Sec. 11- Free & Reduced	10.555	MDE	171980	2,277
National School Lunch Sec. 11- Free & Reduced	10.555	MDE	181980	4,651
Entitlement commodities (non-cash assistance)	10.555	MDE	n/a	75,619
Summer Food Service Program	10.559	MDE	170900	47,552
Summer Food Service Program	10.559	MDE	171900	15,674
Total Child Nutrition Cluster				
Child and Adult Care Food Program:				
Afterschool snacks	10.558	MDE	171920	48,376
Afterschool snacks	10.558	MDE	172010	3,463
Afterschool snacks	10.558	MDE	181920	33,348
Afterschool snacks	10.558	MDE	182010	2,401
Total U.S. Department of Agriculture				
U.S. Department of Education				
Title I Part A:				
Regular Carry Over 2016/2017	84.010	MDE	171530	233,977
Regular 2017/2018	84.010	MDE	181530	360,981
Title II Part A Regular:				
Improving Teacher Quality Carry Over 2016/2017	84.367	MDE	170520	86,699
Improving Teacher Quality 2017/2018	84.367	MDE	180520	81,890
Title III Part A - Higher Education - Institutional Aid	84.031	LCS	160530	2,971
Title III - Immigrant Students	84.365A	LCS	170570	4,702
Title IV Part A -				
Student Support and Academic Enrichment	84.424A	MDE	180750	10,000
Total U.S. Department of Education				
Total Federal Financial Assistance				

See notes to schedule of expenditures of federal awards.

Accrued (Unearned) Revenue June 30, 2017	Current Year Cash Received	Federal Expenditures (Memo Only) Prior Year(s)	Federal Expenditures Year Ended June 30, 2018	Accrued (Unearned) Revenue June 30, 2018
\$ -	\$ 23,226	\$ 128,931	\$ 23,226	\$ -
-	139,091	-	144,161	5,070
-	162,317	128,931	167,387	5,070
28,434	75,406	437,361	46,972	-
-	437,737	-	451,701	13,964
-	460	1,817	460	-
-	4,537	-	4,651	114
-	75,619	-	75,619	-
28,434	593,759	439,178	579,403	14,078
8,758	47,552	8,758	38,794	-
-	4,047	-	15,674	11,627
8,758	51,599	8,758	54,468	11,627
37,192	807,675	576,867	801,258	30,775
458	2,640	46,194	2,182	-
-	190	3,273	190	-
-	33,348	-	33,348	-
-	2,401	-	2,401	-
458	38,579	49,467	38,121	-
37,650	846,254	626,334	839,379	30,775
39,460	72,804	173,290	33,344	-
-	207,088	-	336,881	129,793
39,460	279,892	173,290	370,225	129,793
21,494	23,447	80,334	1,953	-
-	4,173	-	19,138	14,965
21,494	27,620	80,334	21,091	14,965
2,971	2,971	2,971	-	-
-	-	-	4,702	4,702
-	-	-	6,450	6,450
63,925	310,483	256,595	402,468	155,910
\$ 101,575	\$ 1,156,737	\$ 882,929	\$ 1,241,847	\$ 186,685

HARPER CREEK COMMUNITY SCHOOLS

Notes to Schedule of Expenditures of Federal Awards

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Harper Creek 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 the District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on 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 are limited as to reimbursement. 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. Revenues are 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 reported on the Grant Auditor Report reconcile with this Schedule.

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 §200.414 of the Uniform Guidance.

3. PASS-THROUGH AGENCIES

The District receives certain federal grant as subawards from non-federal entities. Pass-through entities, where applicable, have been identified in the Schedule with an abbreviation, defined as follows:

Pass-through Agency Abbreviation	Pass-through Agency Name
LCS	Lakeview Community Schools
MDE	Michigan Department of Education



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*

October 19, 2018

Board of Education
Harper Creek Community Schools
Battle Creek, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of *Harper Creek Community Schools* (the "District"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 19, 2018.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or 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 consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

Rehmann Lohman LLC

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

October 19, 2018

Board of Education
Harper Creek Community Schools
Battle Creek, Michigan**Report on Compliance for the Major Federal Program**

We have audited the compliance of *Harper Creek Community Schools* (the "District") with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended June 30, 2018. The District's major federal program is 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Independent Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the District's major federal program 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 requirement of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's 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 the major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

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

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2018-001 and 2018-002. Our opinion on the major federal program is not modified with respect to these matters.

The District's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The District's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on them.

Report on Internal Control Over Compliance

Management of the District 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 the District's 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 the District's 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2018-001 and 2018-002 that we consider to be significant deficiencies.

The District's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The District's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on them.

Purpose of this Report

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.

Rehmann Johnson LLC

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HARPER CREEK COMMUNITY SCHOOLS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2018

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified? yes X no

Significant deficiency(ies) identified? yes X none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? yes X no

Significant deficiency(ies) identified? X yes none reported

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? X yes no

Identification of major programs and type of auditors' report issued on compliance for each major program:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>	<u>Type of Report</u>
--------------------	-------------------------------------------	-----------------------

10.553, 10.555 and 10.559	Child Nutrition Cluster	Unmodified
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Dollar threshold used to distinguish between Type A and Type B programs: \$ 750,000

Auditee qualified as low-risk auditee? X yes no

HARPER CREEK COMMUNITY SCHOOLS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2018

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2018-001 - Eligibility

Finding Type. Immaterial Noncompliance; Significant Deficiency in Internal Controls over Compliance

Federal program(s)

U.S. Department of Agriculture

➤ Child Nutrition Cluster (CFDA# 10.553, 10.555 and 10.559); Passed through MDE; All project numbers

Criteria. Recipients of federal awards are responsible for compliance with various requirements in accordance with the Uniform Guidance and the award agreement. The Child Nutrition Cluster requires that students receiving free or reduced rate meals meet certain income guidelines, unless they are categorically eligible by being homeless, a migrant, or a runaway. Eligibility determinations should be supported by an application or other documentation.

Condition. In our sample of 40 applications from all students receiving free or reduced cost meals during the year, we noted one instance in which the student's eligibility determination was not supported by a submitted application or direct certification. The student received reduced-price meals during the 2018 school year.

Cause. This condition appears to be the result of inadequate document retention and organization policies.

Effect. As a result of this condition, the District requested grant reimbursements without the proper support.

Questioned Costs. No costs have been questioned as a result of this finding.

Recommendation. We recommend that management develop a systematic method for filing all free and reduced lunch applications and direct certification lists.

View of Responsible Official. The District plans to retain every application to support the eligibility determination.

Responsible Officials. Business Manager and Food Service Director

Estimated Completion Date. June 30, 2019

HARPER CREEK COMMUNITY SCHOOLS

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2018

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONCLUDED)

2018-002 - Special Tests and Provisions - Food Service Fund Balance

Finding Type. Immaterial Noncompliance; Significant Deficiency in Internal Controls over Compliance

Federal program(s)

U.S. Department of Agriculture

- Child Nutrition Cluster (CFDA# 10.553, 10.555 and 10.559); Passed through MDE; All project numbers

Criteria. The USDA requires that the ending balance of the non-profit school food service fund does not exceed three months' average of operating expenses [7 CFR Part 210.14(b)].

Condition. In our review of the District's food service fund balance, we noted that the District's fund balance exceeded three months' average of operating expenses.

Cause. This condition appears to be the result of the District's conservative budgeting of expenditures by management.

Effect. As a result of this condition, the District did not fully comply with USDA fund balance requirements.

Questioned Costs. No costs have been questioned as a result of this finding.

Recommendation. We recommend the District review its budgeting of expenditures for the food service fund to ensure that fund balance is reduced to an appropriate level.

View of Responsible Official. The District is working on updating the equipment in all kitchens throughout the District along with the renovation of the serving line at the middle school. The District expects these updates to reduce the fund balance within the food service fund to an appropriate level for the 2019 fiscal year.

Responsible Officials. Business Manager and Food Service Director

Estimated Completion Date. June 30, 2019



HARPER CREEK COMMUNITY SCHOOLS

Summary Schedule of Prior Audit Findings For the Year Ended June 30, 2018

No matters were reported.

