

HARBOR SPRINGS PUBLIC SCHOOLS
REPORT ON FINANCIAL STATEMENTS
(with required supplementary and additional information)

JUNE 30, 2018



Baird, Cotter & Bishop, P.C.
SERVING YOUR PAST, PRESENT & FUTURE

CERTIFIED PUBLIC ACCOUNTANTS
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HARBOR SPRINGS PUBLIC SCHOOLS
HARBOR SPRINGS, MICHIGAN

ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2018

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August 2, 2018

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Harbor Springs Public Schools
Harbor Springs, 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 Harbor Springs Public Schools, Harbor Springs, Michigan 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.

Auditor's 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 Harbor Springs Public Schools, Harbor Springs, Michigan as of June 30, 2018, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter – Change in Accounting Principle

As discussed in Note 3.S to the financial statements, Harbor Springs Public Schools implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information (as identified in the table of contents) on pages iv through xi and 41-46 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 Harbor Springs Public Schools, Michigan's basic financial statements. The Combining Financial Statements and Other Supplementary Information sections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Combining Financial Statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Combining Financial Statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Other Supplementary Information section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 2, 2018, on our consideration of Harbor Springs Public Schools, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Harbor Springs Public Schools 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 Harbor Springs Public Schools, Michigan's internal control over financial reporting and compliance.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

HARBOR SPRINGS PUBLIC SCHOOLS
HARBOR SPRINGS, MICHIGAN

MANAGEMENT’S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2018

As management of *Harbor Springs Public Schools* (the “District”), a K-12 school district located in Emmet County, Michigan, 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 ended June 30, 2018. Please read it in conjunction with the District’s financial statements, which immediately follow this section.

Overview of the Financial Statements

The District’s financial statements consist of Management’s Discussion and Analysis (this section) and the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are the *Government-Wide Financial Statements* that provide both short-term and long-term information about the District’s overall financial status. These statements present an aggregate view of the District’s finances and a longer-term view of those finances.
- The next statements are *fund financial statements* that focus on individual funds of the District. These statements look at the District’s operations in more detail than the district-wide financial statements by providing information about the District’s most significant funds – the General Fund, 2017 Refunding Debt Service Fund, and 2018 School Building and Site Fund, with all other funds presented in one column as non-major funds.

The *statement of fiduciary net position* and the *statement of changes in fiduciary net position – private purpose trust funds*, present financial information about activities for which the District acts solely as an agent for the benefit of students and parents.

Government-Wide Financial Statements. The *District-Wide Financial Statements* report information about the District as a whole using accounting methods similar to those used by private-sector companies. The *Statement of Net Position* and the *Statement of Activities*, which appear first in the District’s financial statements, include all assets and liabilities and use the accrual basis of accounting. This means that all of the current year’s revenues and expenses are taken into account regardless of when cash is received.

The two government-wide financial statements report the District’s net position and how it has changed. Net position is one way to measure the District’s financial health or position. Over time, increases or decreases in the District’s net position are an indicator of whether its financial position is improving or deteriorating.

The relationship between revenues and expenses is the District’s operating results. However, it should be noted that unlike most private-sector companies where improving shareholder wealth is the goal, the District’s goal is to provide services to our students. Therefore, in order to assess the overall health of the District, one must consider many non-financial factors such as the quality of education provided, breadth of curriculum offered, condition of school facilities and the safety of the schools.

HARBOR SPRINGS PUBLIC SCHOOLS
HARBOR SPRINGS, MICHIGAN

MANAGEMENT’S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2018

The *Statement of Net Position* and *Statement of Activities* report the governmental activities for the District, which encompass all of the District’s services including instruction, supporting services, community services, and food services. Property taxes, unrestricted state aid, state grants, and federal grants finance most of these activities.

Fund Financial Statements. The District’s *fund financial statements* provide detailed information about the most significant funds – not the District as a whole. Some funds are required to be established by State law and by bond covenants, though the District may establish other funds to help control and manage money for particular purposes. It may also establish other funds to show that it is meeting legal responsibilities for using certain taxes, grants, and other money.

The fund level financial statements are reported on a modified accrual basis, which measures only those revenues that are “measurable” and “currently available”. Expenses are recognized to the extent that they are normally expected to be paid with current financial resources.

The fund financial statements are formatted to comply with the legal requirements of the Michigan Department of Education’s Bulletin 1022. In the State of Michigan, the District’s major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including:

- Debt Service Funds – consisting of the 2012, 2015, 2016, and 2017 Debt Service Funds.
- Special Revenue Funds – consisting of the Food Service Fund, and the Community Services Fund.
- Capital Projects Funds – consisting of the 2018 School Building and Site Fund, 2015 School Building and Site Fund, Fiber Optic Build Fund, and the Building & Site Fund (Sinking Fund).

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as an other financial source. The current year’s payments of principal and interest on long-term obligations are recorded as expenditures. Future debt obligations are not recorded.

The District is the trustee, or fiduciary, for its student activity funds. All of the District’s fiduciary activities are reported in separate *Statements of Fiduciary Net Position* and *Statement of Changes in Fiduciary Net Position*. We exclude these activities from the District’s other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

HARBOR SPRINGS PUBLIC SCHOOLS
HARBOR SPRINGS, MICHIGAN

MANAGEMENT’S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2018

Summary of Net Position

The following schedule summarizes the net position at fiscal year ended June 30. The prior year has not been restated to include the new GASB No. 75 Standards—*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*:

Harbor Springs Public Schools
Net Position
Table 1

	Governmental Activities	
	2018	2017
Assets		
Current Assets	\$ 8,863,712	\$ 5,084,602
Non-Current Assets, Net of Accumulated Depreciation	<u>37,923,978</u>	<u>38,117,009</u>
Total Assets	<u>46,787,690</u>	<u>43,201,611</u>
Deferred Outflows of Resources	<u>4,670,615</u>	<u>2,612,946</u>
Liabilities		
Current Liabilities	3,899,468	3,798,946
Long-Term Liabilities	<u>42,386,966</u>	<u>33,493,862</u>
Total Liabilities	<u>46,286,434</u>	<u>37,292,808</u>
Deferred Inflows of Resources	<u>1,932,759</u>	<u>595,281</u>
Net Position		
Net Investment in Capital Assets	22,087,673	20,651,912
Restricted for Specific Purpose	443,546	270,193
Unrestricted (Deficit)	<u>(19,292,107)</u>	<u>(12,995,637)</u>
Total Net Position	<u>\$ 3,239,112</u>	<u>\$ 7,926,468</u>

Investment in capital assets, net of related debt of \$22,087,673, is the original cost of the District’s capital assets, less depreciation, less the long-term debt outstanding used to finance the acquisition of those assets plus unspent bond proceeds. This debt will be repaid from voter-approved property taxes collected as the debt and interest payments come out. Restricted net position of \$443,546 is shown separately to recognize legal constraints from a voter approved tax levy. These constraints limit the District’s ability to use this net position for day-to-day operations.

HARBOR SPRINGS PUBLIC SCHOOLS
HARBOR SPRINGS, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2018

Analysis of Financial Position

During the fiscal year ended June 30, 2018, the District's net position increased by \$1,595,422, increasing the net position to \$3,239,112. A few of the more significant factors affecting net position during the year are discussed below:

1. Depreciation Expense

GASB 34 requires school districts to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net position.

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with GAAP, depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, where applicable. For the fiscal year ended June 30, 2018, \$1,718,619 was recorded for depreciation expense.

2. Pension and Other Postemployment Benefits Expense

GASB 68 and 75 now requires the District to account for its payments to the Michigan Public School Employees' Retirement System in a manner that has a significant effect on the District's change in net position. Based on various factors, the District may report an increase or decrease in net position depending on whether the District's proportionate share of the net pension and OPEB liabilities increases or decreases in any given year. For the year ended June 30, 2018, the District reported a decrease in net position related to GASB 68 and 75 which indicates that the District's proportionate share of the net pension and other postemployment benefits liability has increased.

3. Capital Outlay Acquisitions

For the fiscal year ended June 30, 2018, \$1,525,588 of expenditures for equipment, busses, land improvements and buildings and building improvements were capitalized and recorded as assets of the District. These additions to the District's capital assets will be depreciated over time as explained above.

The net effect of the new capital assets and the current year's depreciation is a decrease to capital assets in the amount of \$193,031 for the fiscal year ended June 30, 2018.

HARBOR SPRINGS PUBLIC SCHOOLS
HARBOR SPRINGS, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2018

Change in Net Position

The following schedule summarizes the results of operations, on a district-wide basis, for the fiscal year ended June 30. The prior year has not been restated to include the new GASB No. 75 Standards—*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*:

Harbor Springs Public Schools
Change in Net Position
Table 2

	Governmental Activities	
	2018	2017
<u>Revenues</u>		
Program Revenues		
Charges for Services	\$ 773,108	\$ 736,540
Operating Grants and Contributions	2,134,771	1,787,856
Capital Grants	230,000	0
General Revenues		
Property Taxes	13,587,801	12,934,710
Unrestricted Investment Interest	19,859	14,785
Unrestricted State Aid	88,720	80,942
Proceeds from the Sale of Capital Assets	35,250	0
Other	69,349	41,213
Total Revenues	16,938,858	15,596,046
<u>Expenses</u>		
Instruction	8,270,883	7,012,844
Supporting Services	4,011,839	4,133,861
Community Services	292,070	594,022
Food Services	458,425	316,353
Facilities Acquisition, Construction, and Improvements	162,187	141,780
Interest/Fees on Long-Term Debt	369,142	557,232
Bond Issuance Costs	58,414	91,113
Other Transactions	1,857	2,202
Depreciation (Unallocated)	1,718,619	1,611,543
Total Expenses	15,343,436	14,460,950
Increase in Net Position	\$ 1,595,422	\$ 1,135,096

Of the District's total revenues available to operate the District, approximately 4.5 percent or \$773 thousand came from fees charged to those who benefited from the programs. Approximately 12.6 percent or \$2.13 million of revenues came from other governments or organizations that subsidize certain programs with grants and other directed types of funding.

HARBOR SPRINGS PUBLIC SCHOOLS
HARBOR SPRINGS, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2018

Local property taxes, in the amount of approximately \$13.58 million, mainly supported the remaining portion of the governmental activities. The property tax revenue represents 13.9911 mills on all non-homestead property, which the District is required by the State to levy in order to receive the full State foundation allowance. Additional mills were levied for sinking fund, recreation fund and debt retirement funds.

The State guaranteed foundation allowance for the District is \$8,472 per student, while locally generated revenue is \$12,814 per student, resulting in our District being an out-of-formula district. The local revenue generated above the state foundation allowance remains in our District. The District also receives \$575K in tax revenue that is generated by a special millage specifically for capital expenditures. The proceeds and expenditures of this special millage are accounted for exclusively in the District's Building and Site Fund (Sinking Fund). This special millage was approved for 5 years in November 2016.

The expense portion of Table 2 shows the financial support each functional area required during the year. Being in the business of educating children, the largest expenses were incurred in instruction, which accounted for approximately \$8.2 million or 54 percent of total expenses. Support services amounted to approximately \$4.01 million or 26.15 percent of all expenses, which includes such items as transportation, maintenance, security, supervision, counseling, athletics, and a variety of similar services that support the District's mission of educating children.

Financial Analysis of the District's Funds

As noted earlier, the District uses funds to help control and manage money for particular purposes. Looking at funds helps the reader consider whether the District is being accountable for the resources taxpayers and others provide, and may provide more insight in the District's overall financial health. As the District completed this year, the governmental funds reported a combined fund balance of approximately \$7.38 million, which is an increase of approximately \$3.75 million from the prior year.

Approximately 25 percent of total combined fund balance, or \$1.82 million, constitutes *unassigned fund balance*, which is available for spending at the District's discretion. The remainder of the fund balance, or approximately \$5.56 million, is *nonspendable, restricted, or assigned* to indicate that it is not available for spending at the District's discretion.

The General Fund is the principal operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the General Fund was approximately \$1.82 million, while total fund balance was approximately \$2.41 million. 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 15 and 20 percent, respectively, of total General Fund expenditures (excluding transfers out).

The fund balance of the District's General Fund increased by approximately \$146,479 during the current fiscal year bringing the fund balance to \$2,413,618, of which \$1,821,948 is unassigned, \$453,674 is assigned for technology, and \$137,996 is nonspendable for inventory and prepaid expenditures.

The 2017 Refunding Debt Service Fund increased its fund balance by \$39,600 bringing the fund balance to \$164,693.

HARBOR SPRINGS PUBLIC SCHOOLS
HARBOR SPRINGS, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2018

The 2018 School Building and Site Fund increased its fund balance by \$3,992,689 bringing the fund balance to \$3,992,689, of which the entire amount is restricted for capital projects.

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with changes in revenues and expenditures. State law requires the budget be amended to ensure expenditures do not exceed appropriations. A schedule showing the District's original and final budget amounts, compared with amounts actually paid and received, is provided in the financial statements.

Overall with the changes in administration the 2017-2018 fiscal year budget came out positive adding \$146,479 to fund balance. There were some personnel changes; Superintendent retired; Chief Financial Officer retired; High School Principal was interim Superintendent.

Capital Asset and Debt Administration

Capital Assets. By the end of June 30, 2018, the District had invested approximately \$37.9 million in a broad range of capital assets, including school buildings, land, vehicles, furniture and equipment (net of depreciation). This represents a net decrease (including all additions) of approximately \$193 thousand from last year. More detailed information about capital assets is available in Note 3 C. to the financial statements.

**Harbor Springs Public Schools
Capital Assets**

	2018	2017
Land	\$ 2,660,623	\$ 2,660,623
Construction-in-Progress	631,433	0
Land Improvements	2,007,730	1,992,818
Buildings and Additions	46,910,055	46,692,802
Furniture and Equipment	5,756,330	5,357,053
Transportation Equipment	778,706	515,993
	<hr/>	<hr/>
Total Capital Assets	58,744,877	57,219,289
	<hr/>	<hr/>
Less Accumulated Depreciation	20,820,899	19,102,280
	<hr/>	<hr/>
Net Capital Assets	\$ 37,923,978	\$ 38,117,009
	<hr/> <hr/>	<hr/> <hr/>

Major capital asset contributions during the 17-18 fiscal year include:

- Various technology equipment in the amount of \$324,406
- Two busses in the amount of \$218,766
- High school boiler replacement work in progress in the amount of \$182,343

HARBOR SPRINGS PUBLIC SCHOOLS
HARBOR SPRINGS, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2018

- Shop building air handling unit in the amount of \$52,687
- Fiber optic cable build in the amount of \$298,483
- Maintenance garage in the amount of \$153,383
- Athletic bond capital project work in progress of \$150,608

In addition to purchasing the above assets the School has committed to spend approximately \$4,050,487 worth of various capital assets that will be added to capital assets in the 2018-2019 fiscal year.

Debt. At year-end, the District had approximately \$20.07 million in general obligation bonds and other long-term debt outstanding – an increase of 1.70 million from last year. The District's net pension liability is \$18.38 million and the OPEB liability is 6.26 million. More detailed information about the District's long-term debt is presented in Note 3.K to the financial statements, and in the other supplementary information section.

Factors Bearing on the District's Future

We considered many factors when setting the District's 2018-19 fiscal year budget.

Approximately 80% of the General Fund revenues are from non-homestead property tax. That makes our non-homestead property values as one of the most important factors impacting our budget.

This budget includes the retirement rate increase from 25.56% to 26.18% beginning 10/1/2018. The health insurance hard cap increased 3.5% from last year. A new Superintendent and Chief Financial Officer were hired. There were multiple support and teaching staff that retired. Charlevoix Emmet ISD passed a regional enhancement millage that will bring in \$516,000 to the District. These dollars are based on the District's student count. This millage is for ten years.

An Athletic Bond was passed for \$4,070,000 to upgrade the athletic facilities and fields.

The District's labor contract with the Harbor Springs Education Association, which represents the District's teachers, will expire in August 31, 2019. The District's labor contract with the Harbor Springs Educational Support Personnel Association, which represents the District's support personnel, will expire in June 30, 2019. We are currently in negotiations with both of our labor contracts.

Contacting the School District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances. It is also designed to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Business Office, 800 State Road, Harbor Springs, Michigan.

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HARBOR SPRINGS PUBLIC SCHOOLS

HARBOR SPRINGS, MICHIGAN

STATEMENT OF NET POSITION

JUNE 30, 2018

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$	4,197,588
Restricted Cash		4,123,229
Accounts Receivable		34,398
Taxes Receivable		79,124
Due from Other Governments		279,083
Accrued Interest Receivable		4,137
Inventories		31,762
Prepaid Expenses		114,391

Total Current Assets 8,863,712

NON CURRENT ASSETS

Capital Assets	58,744,877
Less Accumulated Depreciation	<u>(20,820,899)</u>

Total Non Current Assets 37,923,978

TOTAL ASSETS 46,787,690

DEFERRED OUTFLOWS OF RESOURCES

Related to Pensions	4,257,725
Related to Other Postemployment Benefits	<u>412,890</u>

TOTAL DEFERRED OUTFLOWS OF RESOURCES 4,670,615

LIABILITIES

CURRENT LIABILITIES

Accounts Payable	144,084
Due to Other Governments	159,235
Payroll Deductions and Withholdings	22,268
Salaries Payable	588,217
Accrued Expenses	270,098
Unearned Revenue	295,566
Current Portion of Non Current Liabilities	<u>2,420,000</u>

Total Current Liabilities 3,899,468

The notes to the financial statements are an integral part of this statement.

HARBOR SPRINGS PUBLIC SCHOOLS

HARBOR SPRINGS, MICHIGAN

STATEMENT OF NET POSITION

JUNE 30, 2018

<u>NON CURRENT LIABILITIES</u>	
Bonds Payable - Net	19,908,582
Accrued Interest	86,917
Compensated Absences	165,046
Net Other Postemployment Benefits Liability	6,264,686
Net Pension Liability	18,381,735
Less Current Portion of Non Current Liabilities	<u>(2,420,000)</u>
Total Non Current Liabilities	<u>42,386,966</u>
TOTAL LIABILITIES	<u>46,286,434</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>	
Deferred Gain on Refunding - Net	6,622
Related to Pensions	1,714,345
Related to Other Postemployment Benefits	<u>211,792</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>1,932,759</u>
<u>NET POSITION</u>	
Net Investment in Capital Assets	22,087,673
Restricted for Debt Service	173,920
Restricted for Capital Projects	269,626
Unrestricted (Deficit)	<u>(19,292,107)</u>
TOTAL NET POSITION	<u>\$ 3,239,112</u>

The notes to the financial statements are an integral part of this statement.

HARBOR SPRINGS PUBLIC SCHOOLS

HARBOR SPRINGS, MICHIGAN

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2018

FUNCTIONS/PROGRAMS	EXPENDITURES	PROGRAM REVENUES			GOVERNMENTAL
		CHARGES FOR	OPERATING	CAPITAL	ACTIVITIES
		SERVICES	GRANTS	GRANTS	NET (EXPENSE)
					REVENUE AND
					CHANGES IN
					NET POSITION
<u>GOVERNMENTAL ACTIVITIES</u>					
Instruction	\$ 8,270,883	\$ 32,581	\$ 1,947,936	\$ 0	\$ (6,290,366)
Supporting Services	4,011,839	154,095	81,763	0	(3,775,981)
Community Services	292,070	424,113	0	0	132,043
Food Service Activities	458,425	162,319	105,072	0	(191,034)
Facilities Acquisition, Construction, and Improvements	162,187	0	0	230,000	67,813
Interest on Long-Term Debt	369,142	0	0	0	(369,142)
Bond Issuance Costs	58,414	0	0	0	(58,414)
Other Transactions	1,857	0	0	0	(1,857)
Unallocated Depreciation	1,718,619	0	0	0	(1,718,619)
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ 15,343,436</u>	<u>\$ 773,108</u>	<u>\$ 2,134,771</u>	<u>\$ 230,000</u>	<u>(12,205,557)</u>
<u>GENERAL REVENUES</u>					
Property Taxes - Levied for General Purposes					10,036,808
Property Taxes - Levied for Debt Service					2,837,711
Property Taxes - Levied for Sinking Capital Projects					575,031
Property Taxes - Levied for Recreation					138,251
Investment Earnings					19,859
State Sources					88,720
Proceeds from the Sale of Capital Assets					35,250
Other					69,349
Total General Revenues					<u>13,800,979</u>
Change in Net Position					1,595,422
<u>NET POSITION</u> - Beginning of Year (As Restated)					<u>1,643,690</u>
<u>NET POSITION</u> - End of Year					<u>\$ 3,239,112</u>

The notes to the financial statements are an integral part of this statement.

HARBOR SPRINGS PUBLIC SCHOOLS
HARBOR SPRINGS, MICHIGAN

BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2018

	GENERAL FUND	2017 REFUNDING FUND	2018 SCHOOL BUILDING AND SITE FUND	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<u>ASSETS</u>					
Cash and Cash Equivalents	\$ 3,216,747	\$ 162,244	\$ 0	\$ 818,597	\$ 4,197,588
Restricted Cash	0	0	4,043,641	79,588	4,123,229
Accounts Receivable	10,709	0	0	23,689	34,398
Taxes Receivable	74,545	2,449	0	2,130	79,124
Due from Other Funds	66,324	0	1,000	54,071	121,395
Due from Other Governments	258,897	0	0	20,186	279,083
Accrued Interest Receivable	4,137	0	0	0	4,137
Inventories	26,863	0	0	4,899	31,762
Prepaid Expenditures	111,133	0	0	3,258	114,391
TOTAL ASSETS	\$ 3,769,355	\$ 164,693	\$ 4,044,641	\$ 1,006,418	\$ 8,985,107
<u>LIABILITIES AND FUND BALANCES</u>					
<u>LIABILITIES</u>					
Accounts Payable	\$ 46,883	\$ 0	\$ 51,138	\$ 46,063	\$ 144,084
Due to Other Governments	133,671	0	0	25,564	159,235
Payroll Deductions and Withholdings	22,268	0	0	0	22,268
Salaries Payable	588,217	0	0	0	588,217
Accrued Expenditures	267,858	0	0	2,240	270,098
Due to Other Funds	2,810	0	814	117,771	121,395
Unearned Revenue	294,030	0	0	1,536	295,566
Total Liabilities	1,355,737	0	51,952	193,174	1,600,863
<u>FUND BALANCES</u>					
Nonspendable - Inventory					
Inventory	26,863	0	0	4,899	31,762
Prepaid Expenditures	111,133	0	0	3,258	114,391
Restricted for:					
Food Service	0	0	0	2,534	2,534
Capital Projects	0	0	3,992,689	349,214	4,341,903
Debt Service	0	164,693	0	96,144	260,837
Assigned, Reported in:					
General Fund	453,674	0	0	0	453,674
Special Revenue Fund- Community Services	0	0	0	357,195	357,195
Unassigned	1,821,948	0	0	0	1,821,948
Total Fund Balances	2,413,618	164,693	3,992,689	813,244	7,384,244
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,769,355	\$ 164,693	\$ 4,044,641	\$ 1,006,418	\$ 8,985,107

The notes to the financial statements are an integral part of this statement.

HARBOR SPRINGS PUBLIC SCHOOLS
HARBOR SPRINGS, MICHIGAN

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET POSITION

JUNE 30, 2018

Total Governmental Fund Balances \$ 7,384,244

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

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

The cost of the capital assets is	\$ 58,744,877	
Accumulated depreciation is	<u>(20,820,899)</u>	37,923,978

Other long-term assets are not available for pay for current period expenditures and, therefore, are deferred in the funds. These assets consist of:

Deferred Gain on Refunding	(6,622)
Bond Discount (Premium)	(608,582)

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

Bonds Payable	(19,300,000)
Compensated Absences	(165,046)

Some liabilities, including net pension and other postemployment benefit obligations, are not due and payable in the current period and, therefore, are not reported in the funds.

Net Pension Liability	(18,381,735)
Net Other Postemployment Benefits Liability	(6,264,686)

Deferred outflows and inflows of resources related to pensions and other postemployment benefits are applicable to future periods and, therefore, are not reported in the funds.

Deferred Outflows of Resources	4,670,615
Deferred Inflows of Resources	(1,926,137)

Accrued interest is not included as a liability in governmental funds, it is recorded when paid.

(86,917)

NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 3,239,112

The notes to the financial statements are an integral part of this statement.

HARBOR SPRINGS PUBLIC SCHOOLS
HARBOR SPRINGS, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2018

	GENERAL FUND	2017 REFUNDING FUND	2018 SCHOOL BUILDING AND SITE FUND	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<u>REVENUES</u>					
Local Sources	\$ 10,357,492	\$ 1,829,592	\$ 2,276	\$ 2,548,769	\$ 14,738,129
State Sources	1,378,921	5,432	0	17,960	1,402,313
Federal Sources	133,169	0	0	92,266	225,435
Other Transactions	537,030	0	0	0	537,030
Total Revenues	<u>12,406,612</u>	<u>1,835,024</u>	<u>2,276</u>	<u>2,658,995</u>	<u>16,902,907</u>
<u>EXPENDITURES</u>					
Instruction	7,639,571	0	0	0	7,639,571
Supporting Services	4,434,039	0	0	218,766	4,652,805
Food Service Activities	0	0	0	299,760	299,760
Community Services	0	0	0	536,090	536,090
Facilities, Acquisition, Construction and Improvements	56,406	0	150,608	1,176,644	1,383,658
Debt Service					
Principal	0	1,570,000	0	780,000	2,350,000
Interest	0	224,849	0	242,000	466,849
Bond Issuance Costs	0	0	58,414	0	58,414
Other Transactions	0	575	0	1,282	1,857
Total Expenditures	<u>12,130,016</u>	<u>1,795,424</u>	<u>209,022</u>	<u>3,254,542</u>	<u>17,389,004</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>276,596</u>	<u>39,600</u>	<u>(206,746)</u>	<u>(595,547)</u>	<u>(486,097)</u>

The notes to the financial statements are an integral part of this statement.

HARBOR SPRINGS PUBLIC SCHOOLS
HARBOR SPRINGS, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2018

	GENERAL FUND	2017 REFUNDING FUND	2018 SCHOOL BUILDING AND SITE FUND	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<u>OTHER FINANCING SOURCES (USES)</u>					
Face Value of Bonds	0	0	4,070,000	0	4,070,000
Premium on Bonds Issued	0	0	129,435	0	129,435
Proceeds from the Sale of Capital Assets	35,250	0	0	0	35,250
Transfers In (Out)	(165,367)	0	0	165,367	0
Total Other Financing Sources (Uses)	(130,117)	0	4,199,435	165,367	4,234,685
Net Change in Fund Balance	146,479	39,600	3,992,689	(430,180)	3,748,588
<u>FUND BALANCE</u> - Beginning of Year	2,267,139	125,093	0	1,243,424	3,635,656
<u>FUND BALANCE</u> - End of Year	\$ 2,413,618	\$ 164,693	\$ 3,992,689	\$ 813,244	\$ 7,384,244

The notes to the financial statements are an integral part of this statement.

HARBOR SPRINGS PUBLIC SCHOOLS
HARBOR SPRINGS, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2018

Net Change in Fund Balances Total Governmental Funds \$ 3,748,588

Amounts reported for governmental activities are different because:

Governmental funds report capital outlays as expenditures. In the Statement of Activities these costs are allocated over their estimated useful lives as depreciation. Additionally, the gain or loss on sale or disposal of capital assets is recorded in the Statement of Activities.

Depreciation Expense	(1,718,619)
Capital Outlay	1,525,588

Accrued and accreted interest on bonds is recorded in the Statement of Activities when incurred; it is not recorded in governmental funds until it is paid:

Accrued Interest Payable - Beginning of Year	77,808
Accrued Interest Payable - End of Year	(86,917)

The issuance of Long-Term Debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.

Repayment of Bond Principal	2,350,000
Amortization of Deferred Charges	106,816
Issuance of Debt	(4,070,000)
Bond Premium	(129,435)

Employees Early Retirement and Accumulated Sick Pay are reported on the accrual method in the Statement of Activities, and recorded as an expenditure when financial resources are used in the governmental funds:

Early Retirement Incentive - Beginning of Year	50,000
Early Retirement Incentive - End of Year	0
Accumulated Sick Pay - Beginning of Year	152,696
Accumulated Sick Pay - End of Year	(165,046)

The notes to the financial statements are an integral part of this statement.

HARBOR SPRINGS PUBLIC SCHOOLS
HARBOR SPRINGS, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2018

Governmental funds report district pension and other postemployment benefit contributions as expenditures. However, in the Statement of Activities, the cost of pension and other postemployment benefits earned net of employee contributions are reported as expenses.

Changes in Pension Related Items	(266,693)
Changes in Other Postemployment Benefits Related Items	19,935

Change in Restricted Revenue Reported in the Governmental Funds that is deferred to offset the deferred outflows related to Section 147c pension and other postemployment contributions subsequent to the measurement period:

Change in State Aid Funding for Pension and Other Postemployment Benefits	<u>701</u>
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CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 1,595,422</u></u>
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The notes to the financial statements are an integral part of this statement.

HARBOR SPRINGS PUBLIC SCHOOLS
HARBOR SPRINGS, MICHIGAN

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS

JUNE 30, 2018

	<u>PRIVATE PURPOSE TRUST FUNDS</u>	<u>AGENCY FUNDS</u>
<u>ASSETS</u>		
Cash and Cash Equivalents	\$ 63,053	\$ 270,717
<u>LIABILITIES</u>		
Due to Groups and Organizations	0	270,717
<u>NET POSITION</u>		
Restricted for Trust Activities	61,053	0
Unrestricted	2,000	0
 TOTAL NET POSITION	 \$ 63,053	 \$ 0

The notes to the financial statements are an integral part of this statement.

HARBOR SPRINGS PUBLIC SCHOOLS
HARBOR SPRINGS, MICHIGAN

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS

JUNE 30, 2018

	<u>PRIVATE PURPOSE TRUST FUNDS</u>
<u>ADDITIONS</u>	
Earnings on Investments and Deposits	\$ 61
<u>DEDUCTIONS</u>	
Scholarship Awards	<u>0</u>
Change in Net Position	61
<u>NET POSITION</u> - Beginning of Year	<u>62,992</u>
<u>NET POSITION</u> - End of Year	<u>\$ 63,053</u>

The notes to the financial statements are an integral part of this statement.

HARBOR SPRINGS PUBLIC SCHOOLS
HARBOR SPRINGS, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Harbor Springs Public Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. Reporting Entity

The School District (the "District") is located in Emmet County with its administrative offices located in Harbor Springs, Michigan. The District operates under an elected 7-member board of education which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by generally accepted accounting principles. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

B. Description of Government-Wide Financial Statements

The government-wide financial statements (i.e., the *Statement of Net Position* and the *Statement of Activities*) report the information on all of the nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable. The District does not have any business-type activities or component units.

C. Basis of Presentation – Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from the governmental funds. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

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

D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the government's funds, including its fiduciary funds. Separate statements for each fund category – governmental and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All

HARBOR SPRINGS PUBLIC SCHOOLS
HARBOR SPRINGS, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The District reports the following major governmental funds:

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

The *2017 Refunding Debt Service Fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of government funds.

The *2018 School Building and Site Fund* accounts for activities related to various athletic facilities and fields as well as relates structures as approved by voters.

Other nonmajor funds:

The *special revenue (School Service) funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its food service and community services activities in the special revenue funds.

The *debt retirement funds* account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of government funds.

The *capital projects fund* accounts for activities related to technology and bus expenses as approved by voters, a fiber optic cable build, and capital project activities funded with the Sinking Fund millage.

Additionally, the District reports the following fiduciary funds:

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity.

The *private purpose trust funds* are in place to account for endowed scholarships. They are accounted for using the accrual method of accounting.

During the course of operations the government has activity between funds for various purposes. Any residual balances outstanding at year-end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

HARBOR SPRINGS PUBLIC SCHOOLS
HARBOR SPRINGS, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of 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.

The 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. 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. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, state and federal aid 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. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue resource (within 60 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the government.

The private-purpose trust funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. The agency fund has no measurement focus but utilizes the *accrual basis of accounting* for reporting its assets and liabilities.

F. Budgetary Information

1. Budgetary Basis of Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds.

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances represent commitments related to unperformed contracts for goods or

HARBOR SPRINGS PUBLIC SCHOOLS
HARBOR SPRINGS, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

services. Encumbrance accounting - under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation - is utilized in the governmental funds. While all appropriations and encumbrances lapse at year-end, valid outstanding encumbrances (those for which performance under the executory contract is expected in the next year) are re-appropriated and become part of the subsequent year's budget pursuant to state regulations.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- a) The superintendent submits to the school board a proposed operating budget for the fiscal year commencing on July 1.
- b) A public hearing is conducted during June to obtain taxpayer comments.
- c) Prior to July 1, the budget is legally adopted by the School Board resolution pursuant to the Uniform Budgeting and Accounting Act. The Act requires that the budget be amended prior to the end of the fiscal year, when necessary, to adjust appropriations if it appears that revenues and other financial sources will be less than anticipated, or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated.
- d) The superintendent is charged with general supervision of the budgets and shall hold the department heads responsible for performance of their responsibilities.
- e) For purposes of meeting emergency needs of the District, transfer of appropriations may be made by the authorization of the superintendent. Such transfers of appropriations must be approved by the Board of Education at its next regularly scheduled meeting.
- f) During the year the budgets are monitored and amendments to the budget resolution are made when it is deemed necessary.
- g) Budgeted amounts are as originally adopted on June 26, 2017, or as amended by the School Board of Education throughout the year.

2. *Excess of Expenditures over Appropriations*

	<u>APPROPRIATIONS</u>		<u>EXPENDITURES</u>
Supporting Services			
General Administration	\$ 426,528	\$	428,780
Business	301,475		302,957

These overages were covered by available fund balance and greater than anticipated revenues.

HARBOR SPRINGS PUBLIC SCHOOLS
HARBOR SPRINGS, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. *Cash and Cash Equivalents*

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments. The District considers all highly liquid investments (including certificates of deposit) to be cash equivalents.

2. *Investments*

The District complies with State statutes regarding investment of funds.

The Board policy on investment of funds authorizes the District to invest as follows:

- a) Bonds, bills, or notes of the United States, or obligations, the principal and interest of which are fully guaranteed by the United States.
- b) Certificates of deposit issued by any state or national bank organized and authorized to operate in this state. Some investments authorized by state law are shown as cash on the financial statements.
- c) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- d) Securities issued or guaranteed by agencies or instrumentalities of the United States.

3. *Inventory and Prepaid Items*

Inventory is valued at cost using the first-in/first-out method. Inventory consists of expendable supplies held for consumption, which are recorded as expenditures when consumed rather than when purchased.

Certain payments made to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

The nonspendable fund balance at the governmental fund level is equal to the amount of inventories and prepaid items at year-end to indicate the portion of the governmental fund balances that are nonspendable.

4. *Capital Assets*

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated capital assets are valued at acquisition value on the date received.

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. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

HARBOR SPRINGS PUBLIC SCHOOLS
HARBOR SPRINGS, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Land Improvements	20 - 40 years
Buildings and Additions	10 - 50 years
Furniture and Equipment	5 - 15 years
Transportation Equipment	8 years

The District's capitalization policy is to capitalize individual amounts exceeding \$5,000.

5. *Unearned Revenue*

Unearned revenue arises when resources are received by the District before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, revenue is recognized. The District has unearned revenue in both the General Fund and Lunch Fund that is related to state and local grants/donations, with restrictions on how they can be spent, being received but as of the year-end have not been spent.

6. *Long-Term Obligations*

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method which approximates the effective interest method over the term of the related debt.

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 issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

7. *Defined Benefit Plans*

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

8. *Deferred Outflows/Inflows 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 has two items that qualify for

HARBOR SPRINGS PUBLIC SCHOOLS
HARBOR SPRINGS, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

reporting in this category which are all related to the pension and other postemployment benefits plans for its employees. Details can be found in footnote 3-E and 3-F.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. The separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has three items that qualify for reporting in this category. The first is the deferred charge on refunding reported in the government-wide *Statement of Net Position*. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or funding debt. The other two are future resources yet to be recognized in relation to the pension and other postemployment benefit actuarial calculation. These future resources arise from differences in the estimates used by the actuary to calculate the pension and other postemployment benefit liabilities and the actual results. Details can be found in footnote 3-E and 3-F.

9. *Net Position Flow Assumption*

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

10. *Fund Balance Flow Assumption*

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the District’s policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

11. *Fund Balance Policies*

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The District itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District’s highest level of decision-making authority. The governing board is the highest level of decision-making authority for the government that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation

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imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. The governing board has authorized the chief financial officer to assign fund balance. The board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

12. Use of Estimates

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

13. Restricted Assets

Certain resources of the 2018 School Building and Site Fund and the 2015 School Building and Site Fund are set aside for capital outlay and classified as restricted cash on the balance sheet because their use is limited by applicable bond covenants.

H. Revenues and Expenditures/Expenses

1. State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The local portion of the foundation is funded primarily by non-homestead property taxes. Since the District's property tax collections exceed the state's formula, the foundation grant approach does not apply to the District. Instead, the District uses its locally collected property taxes to fund the District.

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

2. Program Revenues

Amounts reported as program revenue 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. All taxes, including those dedicated for specific purposes, state foundation

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aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenue but instead as *general revenues*.

3. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. Property taxes are assessed as of January 1. The District has elected to have 50% of the taxes billed and due July 1st and the remaining 50% billed and due December 1. The summer levy becomes delinquent as of August 14 for City taxpayers and September 14 for Township taxpayers, and the winter levy becomes delinquent as of February 14 for all taxpayers. After these dates, unpaid taxes are subject to penalties and interest.

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

<u>Fund</u>	<u>Mills</u>
General Fund - Non-Homestead	13.9911
General Fund - Non-Homestead Commercial PPT	1.9911
Capital Projects Sinking Fund - Homestead and Non-Homestead	0.5369
Debt Service Funds - Homestead and Non-Homestead	2.6500
Recreation - Homestead and Non-Homestead	0.1292

4. Compensated Absences

It is the District's policy to permit employees to accumulate earned but unused sick pay. The amount allowable to be compensated for depends on the position and the longevity of the individual employee. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Violations of Legal or Contractual Provisions

Note 1.F.2, on the Excess of Expenditures over Appropriations, describes a budgetary violation that occurred for the year ended June 30, 2018.

NOTE 3 – DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

A. Deposits and Investments

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of June 30, 2018 the District's bank balance was \$8,952,834 and \$7,852,467 of that amount was exposed to custodial credit risk because it was uninsured and uncollateralized. The risk is spread among the School District funds. Although the District's investment policy does not directly address custodial credit risk, it typically limits its exposure by purchasing insured or registered investments or by controlling who holds the deposits.

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Interest rate risk. In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSOs).

Concentration of credit risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Foreign currency risk. The District is not authorized to invest in investments which have this type of risk; therefore, it is not addressed in the investment policy.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Although the District's investment policy does not directly address custodial credit risk, it typically limits its exposure by purchasing insured or registered investments or by controlling who holds the investments.

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

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

Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that reflect the assumptions market participants would use in pricing a security and are developed based on market data obtained from sources independent of the reporting entity. These may include quoted prices from similar activities, interest rates, prepayment speeds, credit risk, and others. Debt securities are valued in accordance with evaluated bid price supplied by the pricing service and generally categorized as Level 2 in the hierarchy. Securities that are categorized as Level 2 in the hierarchy include, but are not limited to, repurchase agreements, U.S. government agency securities, corporate securities, and commercial paper.

Level 3: Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant (for example, when there is little or no market activity for an investment at the end of the period), unobservable inputs may be used. Unobservable inputs reflect the reporting entity's own assumptions about the factors market participants would use in pricing the security and would be based on the best information available under the circumstances.

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The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. There are two types of valuation techniques most commonly used and vary depending on the level of investment. These two techniques are the market approach and income approach. The market approach uses prices and other relevant information generated by the market transactions involving identical or similar assets and liabilities. The income approach discounts future amounts to a single current amount and the discount rate used in the process should reflect current market expectations about risks associated with those future cash flows.

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

The carrying amount of deposits and investments is as follows:

	<u>Total</u>
Deposits – including Fiduciary Funds of \$333,770	<u>\$ 8,654,587</u>

The above amounts are reported in the financial statements as follows:

	<u>Total</u>
Cash - Fiduciary Funds	\$ 333,770
Restricted Cash - 2018 & 2015 School Building and Site Fund	4,123,229
Cash - District-Wide	<u>4,197,588</u>
	<u>\$ 8,654,587</u>

Restricted cash represents the amount of unspent bond proceeds on deposit in the 2018 and 2015 School Building and Site Funds of \$4,043,641 and \$79,588, respectively.

B. Receivables

Receivables as of year-end for the government's individual major funds and nonmajor are as follows:

	<u>General</u>	<u>2017 Refunding Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Receivables				
Accounts	\$ 10,709	\$ 0	\$ 23,689	\$ 34,398
Taxes	74,545	2,449	2,130	79,124
Due from Other Governments	258,897	20,186	0	279,083
Accrued Interest Receivable	4,137	0	0	4,137
	<u>\$ 348,288</u>	<u>\$ 22,635</u>	<u>\$ 25,819</u>	<u>\$ 396,742</u>
Total Receivables	<u>\$ 348,288</u>	<u>\$ 22,635</u>	<u>\$ 25,819</u>	<u>\$ 396,742</u>

The allowance for doubtful accounts is not considered to be material for disclosure. Due from Other Governments is primarily state aid.

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C. Capital Assets

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

	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018
Assets Not Being Depreciated:				
Land	\$ 2,660,623	\$ 0	\$ 0	\$ 2,660,623
Construction in Progress	0	631,433	0	631,433
Total Assets Not Being Depreciated	2,660,623	631,433	0	3,292,056
Other Capital Assets				
Land Improvements	1,992,818	14,912	0	2,007,730
Buildings and Additions	46,692,802	217,253	0	46,910,055
Furniture and Equipment	5,357,053	399,277	0	5,756,330
Transportation Equipment	515,993	262,713	0	778,706
Subtotal	54,558,666	894,155	0	55,452,821
Accumulated Depreciation				
Land Improvements	951,025	46,885	0	997,910
Buildings and Additions	15,038,574	961,113	0	15,999,687
Furniture and Equipment	2,812,099	659,900	0	3,471,999
Transportation Equipment	300,582	50,721	0	351,303
Total Accumulated Depreciation	19,102,280	1,718,619	0	20,820,899
Net Other Capital Assets	35,456,386	(824,464)	0	34,631,922
Net Capital Assets	\$ 38,117,009	\$ (193,031)	\$ 0	\$ 37,923,978

Depreciation for the fiscal year ended June 30, 2018, amounted to \$1,718,619. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

D. Defined Benefit Plan and Post-Retirement Benefits

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

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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.

Benefit Provisions- Overall

Introduction

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

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

Benefits Provided - Pension

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

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

Pension Reform 2010

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

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Pension Reform 2012

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

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

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

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

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

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

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

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

Members who did not make an election before the deadline defaulted to Option 3 as described above. Deferred or nonvested public school employees on September 3, 2012, who return to public school employment on or

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after September 4, 2012, will be considered as if they had elected Option 3 above. Returning members who made the retirement plan election will retain whichever option they chose.

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

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

Pension Reform of 2017

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

Benefits Provided – Other Postemployment Benefit (OPEB)

Benefit provisions of the postemployment healthcare plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions. Retirees have the option of health coverage. Beginning fiscal year 2013, it is funded on a prefunded basis. The System has contracted to provide the comprehensive group medical, hearing, 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.

Retiree Healthcare Reform of 2012

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

Under Public Act 300 of 2012, members were given the choice between continuing the 3% contribution to retiree healthcare and keeping the premium subsidy benefit described above or choosing not to pay the 3% contribution and instead opting out of the subsidy benefit and becoming a participant in the Personal

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Healthcare Fund (PHF), a portable, tax-deferred fund that can be used to pay healthcare expenses in retirement. Participants in the PHF are automatically enrolled in a 2% employee contribution into their 457 account as of their transition date, earning them a 2% employer match into a 401(k) account. Members who selected this option stop paying the 3% contribution to retiree healthcare as of the day before their transition date, and their prior contributions will be deposited into their 401(k) accounts.

Regular Retirement (no reduction factor for age)

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

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

Member Contributions

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

Employer Contributions

Reporting units are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of members and retiree other post-employment benefits (OPEB). Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

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

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

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

	<u>Pension</u>	<u>Other Postemployment Benefit</u>
October 1, 2016 - September 30, 2017	15.27% - 19.03%	5.69% - 5.91%
October 1, 2017 - September 30, 2018	13.54% - 19.74%	7.42% - 7.67%

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The District's pension contributions for the year ended June 30, 2017 were equal to the required contribution total. Pension contributions were approximately \$1,823,265.

The District's OPEB contributions for the year ended June 30, 2018 were approximately \$441,062.

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

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

Pension Liabilities

At June 30, 2018, the District reported a liability of \$18,381,735 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2016 and rolled-forward using generally accepted actuarial procedures. The District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2017 and 2016, the District's proportion was .0709329% and .0697364%

MPSERS (Plan) Non-University Employers Net Pension Liability – As of September 30, 2017 and September 30, 2016

	<u>September 30, 2017</u>	<u>September 30, 2016</u>
Total Pension Liability	\$ 72,407,218,688	\$ 67,917,445,078
Plan Fiduciary Net Position	46,492,967,573	42,968,263,308
Net Pension Liability	<u>\$ 25,914,251,115</u>	<u>\$ 24,949,181,770</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	64.21%	63.27%
Net Pension Liability as a Percentage of Covered-Employee Payroll	309.13%	295.81%

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

For the year ended June 30, 2018, the District recognized total pension expense of \$1,355,543. This amount excludes contributions funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 159,750	\$ 90,195
Section 147c revenue related to District Pension contributions subsequent to measurement date	0	734,015
Changes of assumptions	2,013,865	0
Net difference between projected and actual earnings on pension plan investments	0	878,768
Changes in proportion and differences between District contributions and proportionate share of contributions	391,423	11,367
District contributions subsequent to the measurement date	<u>1,692,687</u>	<u>0</u>
Total	<u>\$ 4,257,725</u>	<u>\$ 1,714,345</u>

\$1,692,687 reported as deferred outflows of resources and \$734,015 reported as deferred inflows or resources related to pensions resulting from District 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:

<u>Year Ended September 30,</u>	<u>Amount</u>
2018	\$ 478,552
2019	765,233
2020	347,001
2021	<u>(6,078)</u>
	<u>\$ 1,584,708</u>

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

OPEB Liabilities

At June 30, 2018, the District reported a liability of 6,264,686 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of September 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation date of September 30, 2016 and rolled-forward using generally accepted actuarial procedures. The District's proportion of the net OPEB liability was based on a projection of its long-term share of contributions to the OPEB plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2017, the District's proportion was 0.0707437%.

MPSERS (Plan) Non-University Employers Net OPEB Liability – As of September 30, 2017 and September 30, 2016

	<u>September 30, 2017</u>	<u>September 30, 2016</u>
Total OPEB Liability	\$ 13,920,945,991	\$ 14,071,279,615
Plan Fiduciary Net Position	<u>5,065,474,948</u>	<u>4,730,719,539</u>
OPEB Liability	<u>\$ 8,855,471,043</u>	<u>\$ 9,340,560,076</u>
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	36.39%	33.62%
OPEB Liability as a Percentage of Covered Payroll	105.64%	unknown

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

For the year ended June 30, 2018, the District recognized total OPEB expense of \$421,127.

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
Differences between expected and actual experience	\$ 0	\$ 66,700
Changes of assumptions	0	0
Net difference between projected and actual earnings on OPEB plan investments	0	145,092
Changes in proportion and differences between District contributions and proportionate share of contributions	263	0
District contributions subsequent to the measurement date	412,627	0
Total	\$ 412,890	\$ 211,792

\$412,627 reported as deferred outflows of resources related to OPEB resulting from District 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 OPEB expense as follows:

Year Ended September 30,	Amount
2018	\$ (51,121)
2019	(51,121)
2020	(51,121)
2021	(51,121)
2022	(7,045)
	\$ (211,529)

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G. Actuarial Valuations and Assumptions of the Pension and OPEB Plans

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

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

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

Inflation - 3.0%

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

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

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

Cost of living pension adjustments - 3.0% annual non-compounded for MIP members.

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

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

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

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

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

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

<u>Investment Category</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity Pools	28.00%	5.60%
Alternative Investment Pools	18.00%	8.70%
International Equity	16.00%	7.20%
Fixed Income Pools	10.50%	-0.10%
Real Estate & Infrastructure Pools	10.00%	4.20%
Absolute Return Pools	15.50%	5.00%
Short-Term Investment Pools	2.00%	-0.90%
	<u>100%</u>	

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

Pension Discount Rate

A discount rate of 7.5% was used to measure the total pension liability (7.0% for the Pension Plus plan). This discount rate was based on the long-term expected rate of return on pension plan investments of 7.5% (7.0% for the Pension Plus plan). The projection of cash flows used to determine 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 plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

OPEB Discount Rate

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

Sensitivity of the 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 percent (7.0% for the Pension Plus plan), as well as what the District's proportionate share

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of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

1% Decrease (Non-Hybrid/Hybrid) 6.5% / 6.0%	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid) 7.5% / 7.0%	1% Increase (Non-Hybrid/Hybrid) 8.5% / 8.0%
\$ 23,945,287	\$ 18,381,735	\$ 13,697,579

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

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

1% Decrease 6.5%	Current Single Discount Rate Assumption 7.5%	1% Increase 8.5%
\$ 7,337,758	\$ 6,264,686	\$ 5,353,984

Sensitivity to the net OPEB liability to changes in the healthcare cost trend rates

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

1% Decrease (6.5% decreasing to 2.5%)	Current Healthcare Cost Trend Rates (7.5% decreasing to 3.5%)	1% Increase (8.5% decreasing to 4.5%)
\$ 5,305,347	\$ 6,264,686	\$ 7,353,949

H. Pension and OPEB Plan Fiduciary Net Position

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

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JUNE 30, 2018

I. Payables to the Pension Plan

As of June 30, 2018, the District is current on all required pension and OPEB plan payments. As of June 30, 2018, the District reported payables in the amount of \$284,952 to the pension and OPEB plan. These amounts represent current payments for June wages paid in July, accruals for summer pay primarily for teachers and also the contributions due funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate.

J. 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 participates in a distinct pool of education institutions within the State of Michigan for various risks of loss, including general liability, property and casualty, employee health and accident insurance, and workers' disability compensation. The pool is considered a public entity risk pools. The District pays annual premiums to each pool for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The District has not been informed of any special assessments being required.

K. Long-Term Liabilities

The District issues general obligation bonds to provide funds for the acquisition, construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District.

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

	Balance July 1, 2017	Increases	(Decreases)	Balance June 30, 2018	Due Within Year
Bonds Payable	\$ 17,580,000	\$ 4,070,000	\$ (2,350,000)	\$ 19,300,000	\$ 2,420,000
Compensated Absences	152,696	12,350	0	165,046	unknown
Net OPEB Liability	6,607,856	207,599	(550,769)	6,264,686	unknown
Net Pension Liability	17,398,661	2,646,828	(1,663,754)	18,381,735	unknown
Total	\$ 41,739,213	\$ 6,936,777	\$ (4,564,523)	\$ 44,111,467	\$ 2,420,000

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

General Obligation Serial Bonds

2018 School Building and Site Bonds Due in Annual Installments of \$530,000 to \$800,000 through May 1, 2024, Interest at 3.00%	\$ 4,070,000
2015 School Building and Site Bonds Due in Annual Installments of \$370,000 to \$375,000 through May 1, 2021, Interest at 2.00%	1,120,000
2016 Refunding Bonds Due in Annual Installments of \$0 to \$1,950,000 through May 1, 2026, Interest at 2.00%	9,225,000
2017 Refunding Bonds Due in Annual Installments of \$180,000 to \$1,615,000 through May 1, 2022, Interest at 3.00%	4,885,000
 <u>Other</u>	
Accrued Compensated Absences	165,046
Net OPEB Liability	6,264,686
Net Pension Liability	<u>18,381,735</u>
Total General Obligation Debt	<u><u>\$ 44,111,467</u></u>

The compensated absences, the net OPEB liability and the net pension liability are generally liquidated by the General Fund.

The annual requirements to service the bonds outstanding (not including accrued compensated absences, early retirement incentive, and net pension liability) to maturity, including both principal and interest, are as follows:

Year Ending June 30,	Bonds Payable		Amounts
	Principal	Interest	Payable
2019	\$ 2,420,000	\$ 508,278	\$ 2,928,278
2020	2,525,000	426,150	2,951,150
2021	2,630,000	354,150	2,984,150
2022	2,560,000	279,000	2,839,000
2023	2,620,000	218,550	2,838,550
2024-2028	<u>6,545,000</u>	<u>313,700</u>	<u>6,858,700</u>
	<u><u>\$ 19,300,000</u></u>	<u><u>\$ 2,099,828</u></u>	<u><u>\$ 21,399,828</u></u>

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JUNE 30, 2018

L. Interfund Receivables and Payables

	INTERFUND RECEIVABLES	INTERFUND PAYABLES
General Fund	\$ 66,324	\$ 2,810
2018 Building and Site Fund	1,000	814
School Service Fund - Food Services	895	47,941
School Service Fund - Community Services	915	17,569
School Debt Fund - 2012 Bond Issue Fund	0	52,261
School Debt Fund - 2015 Bond Issue Fund	52,261	0
	\$ 121,395	\$ 121,395

All remaining balances generally resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All interfund balances outstanding at June 30, 2018, are expected to be repaid within one year.

M. Interfund Transfers

	TRANSFERS IN	TRANSFERS OUT
General Fund	\$ 0	\$ 165,367
School Service Fund - Food Service Fund	32,578	0
School Service Fund - Community Services	17,789	0
School Debt Fund - 2012 Bond Issue	0	52,261
School Debt Fund - 2015 Bond Issue	52,261	0
School Capital Projects Fund - Fiber Optic Build Fund	115,000	0
	\$ 217,628	\$ 217,628

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.

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NOTES TO FINANCIAL STATEMENTS
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N. Fund Balance Classifications

As of June 30, 2018, fund balances are composed of the following:

	General Fund	2017 Refunding Fund	2018 School Building and Site Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:					
Inventory	\$ 26,863	\$ 0	\$ 0	\$ 4,899	\$ 31,762
Prepaid Expenditures	111,133	0	0	3,258	114,391
Restricted:					
Food Service	0	0	0	2,534	2,534
Capital Projects	0	0	3,992,689	349,214	4,341,903
Debt Service	0	164,693	0	96,144	260,837
Assigned:					
Technology Improvements	453,674	0	0	0	453,674
Community Services	0	0	0	357,195	357,195
Unassigned	1,821,948	0	0	0	1,821,948
 Total Fund Balances	 \$ 2,413,618	 \$ 164,693	 \$ 3,992,689	 \$ 813,244	 \$ 7,384,244

O. 2018 and 2015 School Building and Site Capital Projects Funds

The capital projects funds include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the District has complied with the applicable provisions of §1351a of the Revised School Code.

P. Sinking Fund Tax Levy

The School is authorized to levy 0.569 mills for 5 years beginning with the 2016 tax roll. The transactions for the sinking fund are accounted for in a capital projects fund. For this fund, the School Districted has complied with the applicable provisions of §1212(1) of the Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and of Sinking Funds in Michigan.

Q. Tax Abatements

The District receives reduced property tax revenues as a result of Industrial Facilities Tax exemptions granted by Little Traverse Township within the District. Industrial facilities Exemptions are intended to promote construction of new industrial facilities, acquisition of personal property or to rehabilitate historical facilities.

For the fiscal year ended June 30, 2018, (tax year 2017) the District's property tax revenues were reduced by \$23,304 under these programs.

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

R. Other Information

1. Commitments and Contingencies

Contingencies - Various taxpayers within the district from time to time appeal their taxable value assessments with the Michigan Tax Tribunal. Because the district is an “out of formula” district, any reduction in taxable value will have a direct impact on the district’s sources of revenues. Additionally, if the taxable value is lowered for a prior year the district will have to refund previously collected taxes.

Under the terms of various federal and state grants and regulatory requirements, periodic audits are required, and certain costs may be questioned as not being appropriate expenditures under the terms of the grants and requirements. Such audits could lead to reimbursement of the grantor or regulatory agencies. However, management does not believe such disallowances, if any, would be material to the financial position of the district.

Commitments – The District has an outstanding contract with Ballard’s Plumbing and Heating for replacement of its high school boiler in the amount of \$253,560. As of June 30, 2018, work in the amount of \$95,058 was remaining to complete the contract.

Also, The District received \$4,070,000 in principal general obligation bonds on March 22, 2018 for various school building and site improvements. The District has approved a bid from a contractor in the amount of \$3,866,000 but no work related to this contract had begun prior to the end of the fiscal year. The District has two separate contracts with architects who are assigned to the school building and site improvements. As of year-end, the District had an outstanding contract with one firm in the amount of \$178,876 of which \$89,429 was remaining on this contract as of June 30, 2018. The other contract is at set hourly rates not to exceed 7.5% of the actual cost of construction for which the firm is responsible as detailed in the contract. As of year-end, this amount was \$61,160. Most of the expenditures related to the outstanding approved contracts will occur in the 2018-2019 fiscal year.

S. New Accounting Standards

For the year ended June 30, 2017, the District implemented the following new pronouncements: GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

Summary:

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

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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

Net Position - Governmental Activities - As Previously Reported, June 30, 2017	\$ 7,926,468
Adoption of GASB Statement 75:	
Net Other Postemployment Benefit Liability	(6,607,856)
Deferred outflows related to Other Postemployment Benefits	524,333
Deferred inflows related to Other Postemployment Benefits	<u>(199,255)</u>
Net Position - Governmental Activities - Restated as of June 30, 2017	<u>\$ 1,643,690</u>

NOTE 4 – UPCOMING ACCOUNTING PRONOUNCEMENTS

The District is currently evaluating the impact these standards will have on the financial statements when adopted.

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

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

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REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

YEAR ENDED JUNE 30, 2018

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>
<u>REVENUES</u>			
Local Sources	\$ 10,051,315	\$ 10,263,644	\$ 10,357,492
State Sources	1,096,445	1,390,263	1,378,921
Federal Sources	119,959	135,705	133,169
Other Transactions	725,934	532,454	537,030
Total Revenues	<u>11,993,653</u>	<u>12,322,066</u>	<u>12,406,612</u>
<u>EXPENDITURES</u>			
Instruction			
Basic Programs	6,542,036	6,882,777	6,828,874
Added Needs	1,083,431	812,283	810,697
Supporting Services			
Pupil	425,448	408,357	406,875
Instructional Staff	159,278	169,016	167,457
General Administration	461,305	426,528	428,780
School Administration	761,849	777,483	777,416
Business	303,043	301,475	302,957
Operating and Maintenance	1,354,338	1,477,610	1,477,165
Pupil Transportation	335,931	330,133	325,143
Central Services	184,940	198,855	197,624
Other-Athletic Activities	346,529	358,986	350,622
Community Services			
Community Activities	933	0	0
Facilities Acquisition			
Architecture and Engineering Services	0	58,750	56,406
Total Expenditures	<u>11,959,061</u>	<u>12,202,253</u>	<u>12,130,016</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>34,592</u>	<u>119,813</u>	<u>276,596</u>
<u>OTHER FINANCING SOURCES (USES)</u>			
Proceeds from the Sale of Capital Assets	0	38,579	35,250
Transfers In (Out)	(86,188)	(158,235)	(165,367)
Total Other Financing Sources (Uses)	<u>(86,188)</u>	<u>(119,656)</u>	<u>(130,117)</u>
Net Change in Fund Balance	(51,596)	157	146,479
<u>FUND BALANCE</u> - Beginning of Year	<u>2,267,139</u>	<u>2,267,139</u>	<u>2,267,139</u>
<u>FUND BALANCE</u> - End of Year	<u>\$ 2,215,543</u>	<u>\$ 2,267,296</u>	<u>\$ 2,413,618</u>

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REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED AS OF 9/30 OF EACH PLAN YEAR)
JUNE 30, 2018

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
District's proportion of net pension liability (%)							0.07093%	0.06974%	0.06951%	0.06791%
District's proportionate share of net pension liability							\$ 18,381,735	\$ 17,398,661	\$ 16,976,615	\$ 14,957,368
District's covered payroll							5,929,880	5,403,054	5,536,887	5,789,172
District's proportionate share of net pension liability as a percentage of its covered payroll							309.98%	322.02%	306.61%	258.37%
Plan fiduciary net position as a percentage of total pension liability							64.21%	63.27%	63.17%	66.20%

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REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS
MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED AS OF 6/30 OF EACH FISCAL YEAR)
JUNE 30, 2018

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Statorily required contributions							\$ 1,823,265	\$ 1,658,039	\$ 1,513,042	\$ 1,316,797
Contributions in relation to statorily required contributions *							1,823,265	1,658,039	1,513,042	1,316,797
Contribution deficiency (excess)							\$ 0	\$ 0	\$ 0	\$ 0
Covered Payroll							\$ 6,036,127	\$ 5,906,558	\$ 5,322,738	\$ 5,802,318
Contributions as a percentage of covered payroll							30.21%	28.07%	28.43%	22.69%

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

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REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF THE NET OTHER POSTEMPLOYMENT BENEFIT LIABILITY
MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED AS OF 9/30 OF EACH PLAN YEAR)
JUNE 30, 2018

	2026	2025	2024	2023	2022	2021	2020	2019	2018	2017
District's proportion of net OPEB liability (%)										0.070744%
District's proportionate share of net OPEB liability										\$ 6,264,686
District's covered payroll										5,929,880
District's proportionate share of net OPEB liability as a percentage of its covered payroll										105.65%
Plan fiduciary net position as a percentage of total OPEB liability										36.39%

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REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF OTHER POSTEMPLOYMENT BENEFIT CONTRIBUTIONS
MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED AS OF 6/30 OF EACH FISCAL YEAR)
JUNE 30, 2018

	2027	2026	2025	2024	2023	2022	2021	2020	2019	2018
Statutorily required contributions										\$ 441,062
Contributions in relation to statutorily required contributions *										441,062
Contribution deficiency (excess)										\$ 0
Covered Payroll										\$ 6,036,127
Contributions as a percentage of covered payroll										7.31%

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

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NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR YEAR ENDED JUNE 30, 2018

A. Changes of Benefit Terms:

There were no changes of benefit terms for the plan year ended September 30, 2017.

B. Changes of Assumptions:

There were no changes of benefit assumptions for the plan year ended September 30, 2017.

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NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET

JUNE 30, 2018

	<u>SPECIAL REVENUE FUNDS</u>			<u>DEBT SERVICE FUNDS</u>			<u>CAPITAL PROJECT FUNDS</u>			<u>TOTAL NONMAJOR GOVERNMENTAL FUNDS</u>
	<u>FOOD SERVICE FUND</u>	<u>COMMUNITY SERVICES FUND</u>		<u>2012 BOND ISSUE</u>	<u>2015 BOND ISSUE</u>	<u>2016 REFUNDING</u>	<u>2015 SCHOOL BUILDING AND SITE FUND</u>	<u>FIBER OPTIC BUILD FUND</u>	<u>SINKING FUND</u>	
<u>ASSETS</u>										
Cash	\$ 56,271	\$ 361,914	\$ 51,514	\$ 6,914	\$ 36,357	\$ 0	\$ 16,604	\$ 289,023	\$ 818,597	
Restricted Cash	0	0	0	0	0	79,588	0	0	79,588	
Accounts Receivable	4,819	18,870	0	0	0	0	0	0	23,689	
Taxes Receivable	0	0	747	83	529	0	0	771	2,130	
Due from Other Governments	0	186	0	0	0	0	20,000	0	20,186	
Due from Other Funds	895	915	0	52,261	0	0	0	0	54,071	
Inventories	4,899	0	0	0	0	0	0	0	4,899	
Prepaid Expenditures	191	3,067	0	0	0	0	0	0	3,258	
TOTAL ASSETS	\$ 67,075	\$ 384,952	\$ 52,261	\$ 59,258	\$ 36,886	\$ 79,588	\$ 36,604	\$ 289,794	\$ 1,006,418	
<u>LIABILITIES AND FUND BALANCE</u>										
<u>LIABILITIES</u>										
Accounts Payable	\$ 9,592	\$ 5,263	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 31,208	\$ 46,063	
Retainage Payable	0	0	0	0	0	0	7,953	17,611	25,564	
Accrued Expenditures	382	1,858	0	0	0	0	0	0	2,240	
Unearned Revenue	1,536	0	0	0	0	0	0	0	1,536	
Due to Other Funds	47,941	17,569	52,261	0	0	0	0	0	117,771	
Total Liabilities	59,451	24,690	52,261	0	0	0	7,953	48,819	193,174	
<u>FUND BALANCE</u>										
Nonspendable										
Inventory	4,899	0	0	0	0	0	0	0	4,899	
Prepaid Expenditures	191	3,067	0	0	0	0	0	0	3,258	
Restricted for:										
Food Service	2,534	0	0	0	0	0	0	0	2,534	
Debt Service	0	0	0	59,258	36,886	0	0	0	96,144	
Capital Projects	0	0	0	0	0	79,588	28,651	240,975	349,214	
Assigned for:										
Community Services	0	357,195	0	0	0	0	0	0	357,195	
Total Fund Balance	7,624	360,262	0	59,258	36,886	79,588	28,651	240,975	813,244	
TOTAL LIABILITIES AND FUND BALANCE	\$ 67,075	\$ 384,952	\$ 52,261	\$ 59,258	\$ 36,886	\$ 79,588	\$ 36,604	\$ 289,794	\$ 1,006,418	

HARBOR SPRINGS PUBLIC SCHOOLS
HARBOR SPRINGS, MICHIGAN

NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

YEAR ENDED JUNE 30, 2018

	<u>SPECIAL REVENUE FUNDS</u>		<u>DEBT SERVICE FUNDS</u>			<u>CAPITAL PROJECT FUNDS</u>			<u>TOTAL NONMAJOR GOVERNMENTAL FUNDS</u>
	<u>FOOD SERVICE FUND</u>	<u>COMMUNITY SERVICES FUND</u>	<u>2012 BOND ISSUE</u>	<u>2015 BOND ISSUE</u>	<u>2016 REFUNDING</u>	<u>2015 SCHOOL BUILDING AND SITE FUND</u>	<u>FIBER OPTIC BUILD FUND</u>	<u>SINKING FUND</u>	
<u>REVENUES</u>									
Local Sources	\$ 162,355	\$ 563,670	\$ 558,287	\$ 62,246	\$ 394,982	\$ 686	\$ 230,084	\$ 576,459	\$ 2,548,769
State Sources	13,090	0	1,657	185	1,173	0	0	1,855	17,960
Federal Sources	92,266	0	0	0	0	0	0	0	92,266
Total Revenues	267,711	563,670	559,944	62,431	396,155	686	230,084	578,314	2,658,995
<u>EXPENDITURES</u>									
Food Service Activities	299,760	0	0	0	0	0	0	0	299,760
Supporting Services	0	0	0	0	0	218,766	0	0	218,766
Community Activities	0	535,018	0	0	0	0	1,072	0	536,090
Facilities Acquisition, Construction and Improvements	0	0	0	0	0	401,932	315,361	459,351	1,176,644
Debt Service									
Principal	0	0	545,000	50,000	185,000	0	0	0	780,000
Interest	0	0	10,900	23,400	207,700	0	0	0	242,000
Other Transactions	0	0	277	500	505	0	0	0	1,282
Total Expenditures	299,760	535,018	556,177	73,900	393,205	620,698	316,433	459,351	3,254,542
Excess (Deficiency) of Revenues Over (Under) Expenditures	(32,049)	28,652	3,767	(11,469)	2,950	(620,012)	(86,349)	118,963	(595,547)
<u>OTHER FINANCING SOURCES (USES)</u>									
Transfers In (Out)	32,578	17,789	(52,261)	52,261	0	0	115,000	0	165,367
Net Change in Fund Balance	529	46,441	(48,494)	40,792	2,950	(620,012)	28,651	118,963	(430,180)
<u>FUND BALANCE - Beginning of Year</u>	7,095	313,821	48,494	18,466	33,936	699,600	0	122,012	1,243,424
<u>FUND BALANCE - End of Year</u>	\$ 7,624	\$ 360,262	\$ 0	\$ 59,258	\$ 36,886	\$ 79,588	\$ 28,651	\$ 240,975	\$ 813,244

HARBOR SPRINGS PUBLIC SCHOOLS
HARBOR SPRINGS, MICHIGAN

FIDUCIARY FUND TYPES
COMBINING BALANCE SHEET

JUNE 30, 2018

	<u>PRIVATE PURPOSE TRUST FUNDS</u>	<u>AGENCY FUNDS</u>	<u>TOTAL</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 63,053	\$ 270,717	\$ 333,770
<u>LIABILITIES AND FUND BALANCE</u>			
<u>LIABILITIES</u>			
Due to Groups and Organizations	\$ 0	\$ 270,717	\$ 270,717
<u>FUND BALANCE</u>			
Restricted for:			
Scholarships and Memorials	4,387	0	4,387
Endowments	56,666	0	56,666
Unrestricted	2,000	0	2,000
Total Fund Balance	63,053	0	63,053
TOTAL LIABILITIES AND FUND BALANCE	\$ 63,053	\$ 270,717	\$ 333,770

HARBOR SPRINGS PUBLIC SCHOOLS
HARBOR SPRINGS, MICHIGAN

PRIVATE PURPOSE TRUST FUNDS
COMBINING BALANCE SHEET

JUNE 30, 2018

	<u>SHAY</u> <u>SCHOLARSHIP</u> <u>FUND</u>	<u>MIDSHIPMEN</u> <u>DRUM AND</u> <u>BUGLE FUND</u>	<u>TOTAL</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 56,838	\$ 6,215	\$ 63,053
<u>LIABILITIES AND FUND BALANCE</u>			
<u>LIABILITIES</u>			
Due to Groups and Organizations	\$ 0	\$ 0	\$ 0
<u>FUND BALANCE</u>			
Restricted for:			
Scholarships and Memorials	1,609	2,778	4,387
Endowments	53,229	3,437	56,666
Unrestricted	2,000	0	2,000
Total Fund Balance	56,838	6,215	63,053
TOTAL LIABILITIES AND FUND BALANCE	\$ 56,838	\$ 6,215	\$ 63,053

HARBOR SPRINGS PUBLIC SCHOOLS
HARBOR SPRINGS, MICHIGAN

PRIVATE PURPOSE TRUST FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

YEAR ENDED JUNE 30, 2018

	<u>SHAY SCHOLARSHIP FUND</u>	<u>MIDSHIPMEN DRUM AND BUGLE FUND</u>	<u>TOTAL</u>
<u>REVENUES</u>			
Investment Income:			
Interest and Dividends	\$ 57	\$ 4	\$ 61
<u>EXPENDITURES</u>			
Scholarship Awards	0	0	0
Excess of Revenues Over (Under) Expenditures	57	4	61
<u>FUND BALANCE</u> - Beginning of Year	56,781	6,211	62,992
<u>FUND BALANCE</u> - End of Year	<u>\$ 56,838</u>	<u>\$ 6,215</u>	<u>\$ 63,053</u>

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HARBOR SPRINGS PUBLIC SCHOOLS
HARBOR SPRINGS, MICHIGAN

AGENCY FUND

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND BALANCE

YEAR ENDED JUNE 30, 2018

	<u>BALANCE</u>	<u>RECEIPTS</u>	<u>DISBURSEMENTS</u>	<u>BALANCE</u>
	7/01/17	(Including Transfers)		6/30/18
Alumni	\$ 1,579	\$ 0	\$ 0	\$ 1,579
Athletic Director	1,906	250	100	2,056
Safe Route To Schools Grant	824	0	0	824
Band Activities	404	22,507	20,963	1,948
Band Boosters (IMP)	10,068	28,608	24,809	13,867
Benny Davis - NCF - Clothing	52	13	0	65
Benny Davis - NCF- Books	39	13	0	52
Benny Davis - Undesignated	13,000	0	0	13,000
Elementary Library	1,672	0	0	1,672
Blackbird Pop Fund	885	257	48	1,094
Field Trips - BB/Shay	151	0	0	151
BB/Shay Visual Arts	90	1,037	2,195	(1,068)
Blackbird Fundraiser	7,742	4,562	2,314	9,990
Birthday Book Club	224	0	0	224
Preschool Fundraiser	1,127	0	0	1,127
Blackbird Music Program	808	1,781	833	1,756
PTO - ES	381	0	0	381
HS Textbooks - Fees and Fines	1,078	0	0	1,078
Class of 2014	316	0	0	316
Class of 2015	1,324	0	0	1,324
Class of 2016	1,991	0	0	1,991
Class of 2017	287	0	0	287
Class of 2018	3,940	0	3,898	42
Class of 2019	0	2,707	1,000	1,707
Class of 2020	62	263	0	325
Book Deposits Class of 2010	39	0	0	39
Book Deposits Class of 2011	627	0	0	627
Book Deposits Class of 2012	347	0	0	347
Community Tennis - HSPS	234	0	0	234
Echoes	18	0	0	18
HS - Baseball	3,079	11,547	4,197	10,429
HS- Softball	1,367	2,096	2,948	515
HS - Basketball Program	1,045	8,815	6,322	3,538
HS - Cheerleading	2	0	0	2
HS - Golf	3,007	1,995	1,789	3,213
HS - Girls Golf	6,175	1,635	5,591	2,219

HARBOR SPRINGS PUBLIC SCHOOLS
HARBOR SPRINGS, MICHIGAN

AGENCY FUND

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND BALANCE

YEAR ENDED JUNE 30, 2018

	<u>BALANCE</u>	<u>RECEIPTS</u>	<u>DISBURSEMENTS</u>	<u>BALANCE</u>
	7/01/17	(Including Transfers)		6/30/18
HS - Community Adult Band	4,431	1,618	755	5,294
HS - Boys Tennis	40	0	0	40
HS - Girls Tennis	168	2,785	3,359	(406)
HS - Track	5,085	40,780	39,702	6,163
HS - Football	13,268	14,930	14,679	13,519
HS - Varsity Girls Soccer	3,679	8,728	10,039	2,368
HS - Snowboard Club	1,494	0	0	1,494
HS - Student and Staff Support	94	1,284	557	821
National Honor Society	(48)	2,422	1,887	487
Fine Arts Trips HS	1,086	11,421	5,496	7,011
Schiller / Art	138	100	238	0
HS - Women's Basketball	9,954	3,520	2,905	10,569
HS - Volleyball	6,343	0	5,977	366
HS - Wrestling Club	969	0	0	969
HS - Rec Soccer	2,453	0	0	2,453
HS - Dance Club	122	0	0	122
Interest	75	3,233	2,992	316
Key Club	(1,436)	2,365	312	617
MI Youth In Government	1,374	11,230	11,745	859
HS - Physics	1,111	836	871	1,076
District Theatre Arts	15,265	12,282	14,233	13,314
Young Americans Account	2,854	18,140	20,574	420
MS - Boosters	4,433	2,660	2,771	4,322
MS-Anna Bosma-Memorial Scholarship	275	0	0	275
MS - Job Skills	433	0	0	433
MS - Activities	6	2,581	2,856	(269)
MS - Fees and Fines	396	0	0	396
MS - Magazine	4,731	52,567	55,865	1,433
MS - 7th Grade Integrated Studies	4,202	369	805	3,766
MS - 6th Grade Team	4,793	641	1,576	3,858
MS - Science Olympiad	961	0	0	961
MS - Tackle Football	2,135	0	160	1,975
MS-Track	56	0	0	56
MS - Volleyball	787	701	1,384	104
MS - Boys BB	1,095	2,779	2,441	1,433
Parents Advisory-Pac/Cac	3,400	9,092	9,022	3,470

HARBOR SPRINGS PUBLIC SCHOOLS
HARBOR SPRINGS, MICHIGAN

AGENCY FUND

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND BALANCE

YEAR ENDED JUNE 30, 2018

	<u>BALANCE</u>	<u>RECEIPTS</u>	<u>DISBURSEMENTS</u>	<u>BALANCE</u>
	7/01/17	(Including Transfers)		6/30/18
Rampage (yearbook)	4,084	4,380	3,885	4,579
Shay - Multi-Age	21	0	0	21
Shay - Carnival	1,546	0	0	1,546
Shay - Fundraiser Acct.	2,040	772	975	1,837
Shay 3rd Grade	422	8,430	8,370	482
Shay 4th Grade	1,954	6,171	5,838	2,287
Shay 5th Grade	4,914	7,048	9,708	2,254
Shay - Student Council	1,660	0	425	1,235
Shay - Pop Machine	3,514	1,464	2,039	2,939
Shay - Enrichment	3,500	0	2,150	1,350
Lucy Causley Scholarship	1,585	0	0	1,585
Ski Team Boosters	53,908	71,168	58,801	66,275
Spanish Club	8,953	42,895	49,643	2,205
HS - Special Education	3,014	0	0	3,014
Special Art Fund	935	0	0	935
Strive	658	0	0	658
HS - Student Council	570	0	0	570
HS - Student Council Gift	11,586	0	2,308	9,278
MS - Student Council	952	0	339	613
	<u>\$ 267,928</u>	<u>\$ 437,478</u>	<u>\$ 434,689</u>	<u>\$ 270,717</u>

Represented by

Assets

Cash and Cash Equivalents	<u>\$ 267,928</u>	<u>\$ 270,717</u>
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Liabilities

Due to Groups and Organizations	<u>\$ 267,928</u>	<u>\$ 270,717</u>
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HARBOR SPRINGS PUBLIC SCHOOLS
HARBOR SPRINGS, MICHIGAN

SELECTED STATISTICAL DATA
YEARS 2009 TO 2018

SOURCE: ANNUAL AUDITED STATEMENTS

YEAR ENDED JUNE 30,	2018	2017	2016	2015	2014
Total Taxable Value	\$ 1,069,602,261	\$ 1,042,996,303	\$ 1,038,541,810	\$ 1,018,679,786	\$ 1,004,637,717
Non-Homestead Taxable Value	711,454,174	689,620,064	679,568,858	667,991,977	661,373,879
Blended Student Count	767	802	818	824	843
Taxable Value Per Student	1,394,527	1,300,494	1,269,611	1,236,262	1,191,741
Per Pupil Foundation Allowance	8,472	8,366	8,357	8,287	8,237
Mills Levied					
Operations - Non-Homestead	13.9911	13.9911	13.9911	13.9911	13.9911
Debt	2.6500	2.6500	2.6500	2.6500	2.7000
Sinking Fund	0.5369	0.5395	0.5399	0.5399	0.5400
Community Schools	0.1292	0.1298	0.1299	0.1299	0.1300
Property Tax Revenues					
Operations	10,036,808	9,463,502	9,415,308	9,208,987	9,094,165
Debt	2,837,711	2,771,466	2,748,762	2,701,214	2,720,322
Sinking Fund	575,031	564,263	559,744	550,296	543,945
Recreation	138,251	135,479	134,595	132,331	130,891
State Aid - Foundation Grant (Excluding Categoricals)	161,600	141,069	131,150	157,746	193,655
Other General Fund Data					
Total Fund Balance	2,413,618	2,212,211	2,399,114	2,344,186	2,347,739
Total Local Revenues	10,357,492	9,772,236	9,747,483	9,510,632	9,368,995
Total State Revenues	1,378,921	1,168,829	1,036,630	900,404	817,179
Total Expenditures*	12,130,016	11,579,523	11,197,988	10,940,300	10,850,637
*note-2011 was first year Athletics were reported in General Fund					
Long Term Debt Data					
Bonds Payable	19,300,000	17,580,000	19,895,000	22,105,000	22,810,000
Contracts Payable and Retirement Incentives	0	50,000	100,000	0	0
Compensated Absences	165,046	152,696	170,199	191,744	188,809

HARBOR SPRINGS PUBLIC SCHOOLS
HARBOR SPRINGS, MICHIGAN

SELECTED STATISTICAL DATA
YEARS 2009 TO 2018

SOURCE: ANNUAL AUDITED STATEMENTS

YEAR ENDED JUNE 30,	2013	2012	2011	2010	2009
Total Taxable Value	\$ 1,012,581,577	\$ 1,029,274,640	\$ 1,080,156,555	\$ 1,138,942,327	\$ 1,113,835,247
Non-Homestead Taxable Value	660,355,376	678,218,266	720,819,337	764,103,492	751,717,500
Blended Student Count	869	880	984	1,024	1,061
Taxable Value Per Student	1,165,226	1,169,630	1,097,720	1,112,248	1,049,798
Per Pupil Foundation Allowance	8,207	8,207	8,677	8,677	8,677
Mills Levied					
Operations - Non-Homestead	13.9911	13.9911	13.9911	13.9911	13.9911
Debt	3.2800	3.1000	2.9600	2.9200	2.9500
Sinking Fund	0.5400	0.6600	0.6600	0.6600	0.6600
Community Schools	0.0000	0.0000	0.0000	0.0000	0.0000
Property Tax Revenues					
Operations	9,188,353	9,367,003	9,884,590	10,624,443	10,349,061
Debt	3,322,565	3,195,991	3,196,568	3,332,759	3,290,790
Sinking Fund	546,617	680,864	712,657	752,835	732,749
Recreation	0	0	0	0	0
State Aid - Foundation Grant (Excluding Categoricals)	212,189	201,721	202,030	186,025	179,214
Other General Fund Data					
Total Fund Balance	2,464,389	2,689,684	3,422,045	3,534,150	3,358,794
Total Local Revenues	9,490,634	9,623,898	10,233,466	10,863,120	10,666,557
Total State Revenues	615,073	507,599	330,510	243,513	395,405
Total Expenditures*	10,817,650	11,375,378	11,615,291	11,120,689	11,199,483
*note-2011 was first year Athletics were reported in General Fund					
Long Term Debt Data					
Bonds Payable	24,680,000	25,895,499	24,523,734	25,775,851	27,054,959
Contracts Payable and Retirement Incentives	0	0	100,000	200,000	0
Compensated Absences	189,297	176,878	199,239	289,933	320,534

HARBOR SPRINGS PUBLIC SCHOOLS

HARBOR SPRINGS, MICHIGAN

SCHEDULE OF BONDS PAYABLE

JUNE 30, 2018

<u>TITLE OF ISSUE</u>	2018 School Building and Site Bonds		
<u>PURPOSE</u>	Purchasing, erecting, completing, remodeling, and equipping or re-equipping structures, athletic fields and other facilities, and parts of or additions to those facilities, including without limitation track and field facilities, soccer, softball and baseball fields, tennis courts, football practice field and football stadium, and acquiring, preparing, developing and improving the sites thereof, including parking, fencing, furnishing, landscaping, concession stands, bleachers, restrooms, dugouts, scorer's booths and scoreboards; and furnishings or refurbishing and equipping an re-equipping classrooms, libraries and hallways at the high school and middle school		
<u>DATE OF ISSUE</u>	March 22, 2018		
<u>INTEREST PAYABLE</u>	May 1, and November 1, of each year		
<u>AMOUNT OF ISSUE</u>			\$ 4,070,000
<u>AMOUNT REDEEMED</u>			
Redeemed Prior to Current Year	\$	0	
Redeemed During Current Year		<u>0</u>	<u>0</u>
<u>BALANCE OUTSTANDING - June 30, 2018</u>			<u>\$ 4,070,000</u>

<u>DUE DATES</u>	<u>INTEREST RATES</u>	<u>REQUIREMENTS</u>		
		<u>TOTAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
November 1, 2018		\$ 74,278	\$ 74,278	
May 1, 2019	3.00%	591,050	61,050	\$ 530,000
November 1, 2019		53,100	53,100	
May 1, 2020	3.00%	633,100	53,100	580,000
November 1, 2020		44,400	44,400	
May 1, 2021	3.00%	684,400	44,400	640,000
November 1, 2021		34,800	34,800	
May 1, 2022	3.00%	779,800	34,800	745,000
November 1, 2022		23,625	23,625	
May 1, 2023	3.00%	798,625	23,625	775,000
November 1, 2023		12,000	12,000	
May 1, 2024	3.00%	812,000	12,000	800,000
		<u>\$ 4,541,178</u>	<u>\$ 471,178</u>	<u>\$ 4,070,000</u>

HARBOR SPRINGS PUBLIC SCHOOLS
HARBOR SPRINGS, MICHIGAN

SCHEDULE OF BONDS PAYABLE
JUNE 30, 2018

<u>TITLE OF ISSUE</u>	2016 Refunding Bonds	
<u>PURPOSE</u>	To refund the 2006 bonds to take advantage of lower advantage of lower interest rates.	
<u>DATE OF ISSUE</u>	March 2, 2016	
<u>INTEREST PAYABLE</u>	May 1, and November 1, of each year	
<u>AMOUNT OF ISSUE</u>		\$ 9,545,000
<u>AMOUNT REDEEMED</u>		
Redeemed Prior to Current Year	\$ 135,000	
Redeemed During Current Year	<u>185,000</u>	<u>320,000</u>
<u>BALANCE OUTSTANDING - June 30, 2018</u>		<u><u>\$ 9,225,000</u></u>

<u>DUE DATES</u>	<u>INTEREST RATES</u>	<u>REQUIREMENTS</u>		
		<u>TOTAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
November 1, 2018		\$ 102,000	\$ 102,000	
May 1, 2019	2.00%	102,000	102,000	\$ 0
November 1, 2019		102,000	102,000	
May 1, 2020	2.00%	102,000	102,000	0
November 1, 2020		102,000	102,000	
May 1, 2021	2.00%	102,000	102,000	0
November 1, 2021		102,000	102,000	
May 1, 2022	2.00%	1,737,000	102,000	1,635,000
November 1, 2022		85,650	85,650	
May 1, 2023	2.00%	1,930,650	85,650	1,845,000
November 1, 2023		67,200	67,200	
May 1, 2024	2.00%	1,947,200	67,200	1,880,000
November 1, 2024		48,400	48,400	
May 1, 2025	2.00%	1,963,400	48,400	1,915,000
November 1, 2025		29,250	29,250	
May 1, 2026	2.00%	<u>1,979,250</u>	<u>29,250</u>	<u>1,950,000</u>
		<u><u>\$ 10,502,000</u></u>	<u><u>\$ 1,277,000</u></u>	<u><u>\$ 9,225,000</u></u>

HARBOR SPRINGS PUBLIC SCHOOLS
HARBOR SPRINGS, MICHIGAN

SCHEDULE OF BONDS PAYABLE
JUNE 30, 2018

<u>TITLE OF ISSUE</u>	2017 Refunding Bonds	
<u>PURPOSE</u>	To refund the 2007 bonds to take advantage of lower advantage of lower interest rates.	
<u>DATE OF ISSUE</u>	March 3, 2017	
<u>INTEREST PAYABLE</u>	May 1, and November 1, of each year	
<u>AMOUNT OF ISSUE</u>		\$ 6,455,000
<u>AMOUNT REDEEMED</u>		
Redeemed Prior to Current Year	\$	0
Redeemed During Current Year	<u>1,570,000</u>	<u>1,570,000</u>
<u>BALANCE OUTSTANDING - June 30, 2018</u>		<u><u>\$ 4,885,000</u></u>

<u>DUE DATES</u>	<u>INTEREST RATES</u>	<u>REQUIREMENTS</u>		
		<u>TOTAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
November 1, 2018		\$ 73,275	\$ 73,275	
May 1, 2019	3.00%	1,593,275	73,275	\$ 1,520,000
November 1, 2019		50,475	50,475	
May 1, 2020	3.00%	1,620,475	50,475	1,570,000
November 1, 2020		26,925	26,925	
May 1, 2021	3.00%	1,641,925	26,925	1,615,000
November 1, 2021		2,700	2,700	
May 1, 2022	3.00%	<u>182,700</u>	<u>2,700</u>	<u>180,000</u>
		<u><u>\$ 5,191,750</u></u>	<u><u>\$ 306,750</u></u>	<u><u>\$ 4,885,000</u></u>

HARBOR SPRINGS PUBLIC SCHOOLS
HARBOR SPRINGS, MICHIGAN

SCHEDULE OF BONDS PAYABLE
JUNE 30, 2018

<u>TITLE OF ISSUE</u>	2012 School Building and Site Bonds	
<u>PURPOSE</u>	To acquire and install technology, technology infrastructure, safety and security improvements, furnishings and equipment in school facilities and purchasing new school buses.	
<u>DATE OF ISSUE</u>	February 23, 2012	
<u>INTEREST PAYABLE</u>	May 1, and November 1, of each year	
<u>AMOUNT OF ISSUE</u>		\$ 2,690,000
<u>AMOUNT REDEEMED</u>		
Redeemed Prior to Current Year	\$ 2,145,000	
Redeemed During Current Year	<u>545,000</u>	<u>2,690,000</u>
<u>BALANCE OUTSTANDING - June 30, 2018</u>		<u><u>\$ 0</u></u>

HARBOR SPRINGS PUBLIC SCHOOLS
HARBOR SPRINGS, MICHIGAN

SCHEDULE OF BONDS PAYABLE
JUNE 30, 2018

<u>TITLE OF ISSUE</u>	2015 School Building and Site Bonds		
<u>PURPOSE</u>	To acquire and install technology, technology infrastructure, safety and security improvements, furnishings and equipment in school facilities and purchasing new school buses.		
<u>DATE OF ISSUE</u>	June 25, 2015		
<u>INTEREST PAYABLE</u>	May 1, and November 1, of each year		
<u>AMOUNT OF ISSUE</u>		\$	1,195,000
<u>AMOUNT REDEEMED</u>			
Redeemed Prior to Current Year	\$	25,000	
Redeemed During Current Year		50,000	75,000
<u>BALANCE OUTSTANDING - June 30, 2018</u>			\$ 1,120,000

<u>DUE DATES</u>	<u>INTEREST RATES</u>	<u>REQUIREMENTS</u>		
		<u>TOTAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
November 1, 2018		\$ 11,200	\$ 11,200	
May 1, 2019	2.00%	381,200	11,200	\$ 370,000
November 1, 2019		7,500	7,500	
May 1, 2020	2.00%	382,500	7,500	375,000
November 1, 2020		3,750	3,750	
May 1, 2021	2.00%	378,750	3,750	375,000
		\$ 1,164,900	\$ 44,900	\$ 1,120,000



Baird, Cotter & Bishop, P.C.

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134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601 PHONE: (231) 775-9789 FAX: (231) 775-9749
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August 2, 2018

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

To the Board of Education
Harbor Springs Public Schools
Harbor Springs, 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 Harbor Springs Public Schools, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Harbor Springs Public Schools' basic financial statements, and have issued our report thereon dated August 2, 2018.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

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

PURPOSE OF THIS REPORT

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

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

