

Holly Area Schools

Financial Statements

June 30, 2018



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Holly Area Schools
Members of the Board of Education and Administration
June 30, 2018

Members of the Board of Education

Mr. Michael Newcomb	President
Mrs. Robin Carne	Vice President
Mrs. Linda Blair	Secretary
Mr. Peter Deahl	Treasurer
Mrs. Amanda Bladzick	Trustee
Mrs. Sue Julian	Trustee
Mrs. Hilarie McMullen	Trustee

Administration

Mr. Dave Nuss	Superintendent
Mr. Steven A. Lenar	Assistant Superintendent Administrative Services



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Independent Auditors' Report

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Holly Area Schools, 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.

Adoption of New Standards

As described in Note 1 to the financial statements, during the year ended June 30, 2018, the School District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinions are not modified with respect to this matter.

Other Matters:

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of the school district's proportionate share of the net pension liability, schedule of the school district's pension contributions, schedule of the school district's proportionate share of the net OPEB liability, and schedule of the school district's OPEB contributions identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, 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 Holly Area Schools' basic financial statements. Other supplementary information, as identified in the table of contents, is presented for purpose of additional analysis and is not a required part of the basic financial statements.

The other supplementary information, as identified in the table of contents, is the responsibility of management and, other than the prior year information, was derived from and relates 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, other than the prior year information, the other supplementary information, as identified in the table of contents, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Prior Year Supplementary Information

We also have previously audited, in accordance with auditing standards generally accepted in the United States, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, Holly Area Schools' basic financial statements as of and for the year ended June 30, 2017, which are not presented with the accompanying basic financial statements. In our report dated August 30, 2017, we expressed unmodified opinions on the respective basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information. That audit was conducted for the purpose of forming opinions on the basic financial statements that collectively comprise Holly Area Schools' basic financial statements as a whole. The 2017 information in the comparative supplemental schedules is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2017 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of those 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 2017 information in the comparative supplementary schedules are fairly stated in all material respects in relation to the basic financial statements from which they have been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 7, 2018 on our consideration of Holly Area Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 Holly Area 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 Holly Area Schools' internal control over financial reporting and compliance.

Yeo & Yeo, P.C.

Flint, Michigan
September 7, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the 2018 annual financial report presents our discussion and analysis of Holly Area Schools District's financial performance during the year ended June 30, 2018. Please read it in conjunction with Holly Area Schools' financial statements, which immediately follows this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Holly Area Schools District financially as a whole. The *District-wide Financial Statements* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a long-term view of those finances. The *Fund Financial Statements* provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the government-wide financial statements by providing information about the School District's most significant funds, the General Fund with all other funds presented in one column as Other Governmental Funds. The remaining statement, the fiduciary fund statement of assets and liabilities, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

Financial Section

- Basic Financial Statements
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 - Fund Financial Statements
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 - Combining Statement of Revenue, Expenditures and Changes in Fund Balances – Non-major Governmental Funds
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The District implemented new accounting guidance, GASB Statement No. 75, which requires the District to restate its beginning net position to recognize its proportionate share of the net other post-employment benefits (OPEB) liability. This restatement resulted in a decrease to our beginning net position of approximately \$16.6 million.

District-wide Financial Statements

One of the most important questions asked about the School District is, "As a whole, what is Holly Area Schools District's financial condition as a result of the year's activities?" The statement of net position and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps answer this question. These statements include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report Holly Area Schools District's net position - the difference between assets and liabilities, as reported in the statement of net position - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net position, as reported in the statement of activities, are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, Holly's goal is to provide services to our students, not to generate profits as commercial entities do. Many other non-financial factors, such as the quality of the education provided and the safety of the schools, must be considered to assess the overall health of the School District. The statement of net position and the statement of activities report the governmental activities for Holly Area Schools, which encompass all of the School District's services, including instruction, support services, community services, athletics, and food services. Property taxes, unrestricted state aid (foundation allowance revenue), and State and federal grants finance most of these activities.

Fund Financial Statements

Holly Area Schools fund financial statements provide detailed information about the most significant funds, not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, Holly Area Schools establishes many other funds to help it control and manage money for particular purposes, such as the food services and community services funds. Funds are also established to show that it's meeting legal responsibilities for using certain taxes, grants, and other money.

The governmental funds of the School District use the following accounting approach:

Governmental funds - All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using the modified accrual method of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps to determine whether there are more or less financial resources that can be spent in the near future to finance Holly's programs.

Fiduciary Fund

Holly Area Schools District acts as the trustee for its student activity funds. All of the School District's fiduciary activities are reported in separate statements for fiduciary funds. These activities are excluded from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The School District

The statement of net position provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net position as of June 30, 2018 and 2017.

Table 1 Governmental Activities

	2018	2017
Assets		
Current and other assets	\$ 11,925,094	\$ 10,338,811
Capital assets	54,524,405	58,965,178
Total assets	66,449,499	69,303,989
Deferred outflows of resources	14,247,550	8,372,667
Total assets and deferred outflows of resources	80,697,049	77,676,656
Liabilities		
Current liabilities	6,595,660	7,084,464
Long-term liabilities	113,641,346	100,158,564
Total liabilities	120,237,006	107,243,028
Deferred inflows of resources	7,138,882	3,249,102
Total liabilities and deferred inflows of resources	127,375,888	110,492,130
Net Position		
Net investment in capital assets	12,204,607	10,740,123
Restricted	1,172,086	594,395
Unrestricted	(60,055,532)	(44,149,992)
Total net position	\$ (46,678,839)	\$ (32,815,474)

The above analysis focuses on the net position (see Table 1 above). The change in net position (see Table 2) of the School District's governmental activities is discussed below. The School District's net position was a deficit \$46,678,839 at June 30, 2018. Net investment in capital assets totaled \$12,204,607. This compares the original cost, less depreciation of the School District's capital assets, to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. The remaining amount of net position was a combined deficit of \$58,883,446. The unrestricted portion of \$60,055,532 of governmental activities represents the accumulated results of all past years' operations.

The unassigned fund balance is used for working capital and cash flow needs as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year-to-year. The results of this year's operations for Holly Area Schools District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net position for fiscal year 2018. As reported in the statement of activities, the cost of all governmental activities this year was \$44,003,116. Certain activities were partially funded from those who benefited from the programs, \$1,247,172, or by other governments and organizations that subsidized certain programs with grants and contributions, \$13,352,764. The remaining "public benefit" portion of governmental activities was funded with \$11,085,212 in property taxes, \$20,714,694 in State foundation allowance and other unrestricted State revenues, and with other revenues, such as interest and general entitlements of \$306,088. Holly Area School District experienced an increase in net position of \$2,702,814. The assets increased primarily as a result of ongoing operations in the School District.

Table 2 Governmental Activities

Revenue	2018	2017
Program revenue		
Charges for services	\$ 1,247,172	\$ 1,201,619
Operating grants	13,352,764	12,599,406
General revenue:		
Property taxes-general	3,850,048	3,876,601
Property taxes-debt service	7,235,164	7,077,828
State aid unrestricted	20,714,694	19,952,404
Other	306,088	319,183
Total revenue	46,705,930	45,027,041
Functions/Program Expenses		
Instruction	25,343,908	23,972,010
Support services	14,455,850	13,608,731
Community services	783,755	740,535
Food services	1,602,894	1,454,936
Interest on long-term debt	1,816,709	1,955,936
Total expenses	44,003,116	41,732,148
Increase (Decrease) in net position	\$ 2,702,814	\$ 3,294,893

As discussed above, the net cost shows the financial burden that was placed on the State and Holly Area Schools Districts' taxpayers by each of these functions. Since property taxes for operations and unrestricted State aid constitute the vast majority of School District operating revenue sources, the Board of Education and Administration must annually evaluate the needs of the School District and balance those needs with State-prescribed available unrestricted revenues.

The School District's Funds

As noted earlier, Holly Area School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether Holly District is being held accountable for the resources taxpayers and others provide to it and may give more insight into the School District's overall financial health.

As the School District completed the 2018 school year, the governmental funds reported a combined fund balance of \$4,671,721, an increase of \$1,106,228 from the prior year. The changes by major and non-major funds are as follows:

	General Fund	Other Governmental Funds	Total Governmental Funds
Fund balance beginning of year	\$ 2,302,511	\$ 1,262,982	\$ 3,565,493
Increase/(Decrease)	<u>448,833</u>	<u>657,395</u>	<u>\$ 1,106,228</u>
Fund balance end of year	<u><u>\$ 2,751,344</u></u>	<u><u>\$ 1,920,377</u></u>	<u><u>\$ 4,671,721</u></u>

In the General Fund, our principal operating fund, the fund balance increased by \$448,833 from last year. Revenues increased by \$1,418,933 from the prior year and expenditures increased by approximately \$1,723,448 for a total of \$37,414,069. By comparison, the General Fund balance increased by \$753,348 for the year ended June 30, 2017. Revenues increased primarily as a result of an increase of students and an increase in the State of Michigan Foundation Grant to make State revenues the bulk of the total increase. Expenditure increases are a normal part of operations but mainly due to the result of MPSERS payments and increases Maintenance and Technology support. The fund balance of the General Fund is available to fund costs related to allowable school operating purposes.

The fund balance of the Non-Major funds increased by \$657,395 in 2018. Combined, the Debt Service Funds showed a fund balance increase of approximately \$ 537,060. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue related debt service.

General Fund Budgetary Highlights

Over the course of the year, Holly Area Schools revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budgets was actually adopted in March and April 2018 and the General Fund had a small adjustment in June 2018. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these

financial statements. Budgeted revenues increased by \$ 1,899,446 primarily due to State Revenue and taxable value changes, adjustments for 147c retirement payments toward the unfunded accrued liability and several minor new state grants that were approved.

Budgeted expenditures also had an increase of \$1,751,291 to account for the changes in the general operating plan of the School District primarily in Maintenance and Security. Overall, final actual expenditures performed favorably to budget by \$178,974, revenues performed favorably to budget by \$ 136,777, for a total combined favorable variance of \$315,751.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2018, the School District had \$55,452,633 invested in a broad range of capital assets, including land, buildings, and furniture and equipment. This amount represents a net decrease (including additions, deductions, and depreciation) of approximately \$3,512,545 or 5.96% from last year.

	2018	2017
Land	\$ 928,228	\$ 928,228
Buildings and improvements (net of accumulated depreciation)	52,318,176	55,735,567
Furniture, equipment and vehicles (net of accumulated depreciation)	2,206,229	2,301,383
Total capital assets	<u>\$ 55,452,633</u>	<u>\$ 58,965,178</u>

We present more detailed information about our capital assets in the notes to financial statements.

Debt

At the end of this year, Holly Area Schools District had \$ 41,190,000 in bonds outstanding versus \$ 46,100,000 in the previous year – a decrease of 10.65%. Those bonds consisted of the following:

	2018	2017
General Obligation Bonds	\$ 41,190,000	\$ 46,100,000

The School District's general obligation bond rating remained to A-, with an Outlook of stable. The State limits the amount of general obligation debt that schools can issue to 15% of the assessed value of all taxable property within the School District's boundaries. The School District's outstanding unqualified general obligation debt of \$ 41,190,000 is significantly below this \$ 110,315,484 statutorily imposed limit. Other obligations include accrued vacation pay, and sick leave. We present more detailed information about our long-term liabilities in the notes to financial statements.

Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration consider many factors when setting the School District's 2019 fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2019 fiscal year is 90% of the October 2018 and 10% of the February 2018 student counts. The 2018-19 budgets were adopted in June 2018 based on an estimate of 3,250 students that will be enrolled in September 2018. Approximately 80% of total General Fund revenue is from the foundation allowance. Under State law, the School District cannot assess additional property tax revenue for general operations. As a result, School District funding is heavily dependent on the State's ability to fund local school operations. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget if actual School District resources are not sufficient to fund original appropriations. Since the School District's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts. The 2018-19 General Fund budget was adopted with \$ 326,862 excess revenues. The School District's unassigned General Fund balance of \$ 2,762.455 or 7.50% of General Fund expenditures is sufficient to meet any unanticipated shortfalls the State may experience in the School Aid Fund. The district will continue to strengthen its fund balance to avoid Early Warning legislation and to maintain a fund balance of over 5%.

Contacting the District's Financial Management

This financial report is designed to the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about the report or need additional information, contact the Business Office, 920 Baird Street, Holly, Michigan 48442.

BASIC FINANCIAL STATEMENTS

Holly Area Schools
Statement of Net Position
June 30, 2018

	<u>Governmental Activities</u>
Assets	
Cash	\$ 5,270,568
Accounts receivable	4,333
Due from other governmental units	5,601,731
Inventory	25,384
Prepaid items	94,850
Capital assets not being depreciated	928,228
Capital assets - net of accumulated depreciation	<u>54,524,405</u>
 Total assets	 <u>66,449,499</u>
 Deferred Outflows of Resources	
Deferred amount relating to the net pension liability	11,070,703
Deferred amount relating to the net OPEB liability	1,132,173
Deferred amount of debt refunding	<u>2,044,674</u>
 Total deferred outflows of resources	 <u>14,247,550</u>
 Total assets and deferred outflows of resources	 <u>80,697,049</u>

See Accompanying Notes to the Financial Statements

Holly Area Schools
Statement of Net Position
June 30, 2018

	Governmental Activities
Liabilities	
Accounts payable	\$ 396,841
State aid anticipation note payable	2,480,000
Due to other governmental units	366,155
Payroll deductions and withholdings	94,824
Accrued expenditures	296,309
Accrued salaries payable	2,871,970
Unearned revenue	89,561
Long-term liabilities	
Debt due within one year	5,803,657
Debt due in more than one year	39,990,388
Net pension liability	50,599,001
Net OPEB liability	17,248,300
	<u>120,237,006</u>
Deferred Inflows of Resources	
Deferred amount amount relating to the net pension liability	6,522,333
Deferred amount amount relating to the net OPEB liability	616,549
	<u>7,138,882</u>
Total liabilities and deferred inflows of resources	<u>127,375,888</u>
Net Position	
Net investment in capital assets	12,204,607
Restricted for	
Debt service	1,172,086
Unrestricted (deficit)	(60,055,532)
Total net position	<u>\$ (46,678,839)</u>

See Accompanying Notes to the Financial Statements

Holly Area Schools
Statement of Activities
For the Year Ended June 30, 2018

		Program Revenues		Net (Expense)
				Revenue and
				Changes in
				Net Position
	<u>Expenses</u>	<u>Charges for</u>	<u>Operating</u>	
		<u>Services</u>	<u>Grants and</u>	
			<u>Contributions</u>	
Functions/Programs				
Governmental activities				
Instruction	\$ 25,343,908	\$ -	\$ 11,045,560	\$ (14,298,348)
Supporting services	14,455,850	187,728	1,031,665	(13,236,457)
Food services	1,602,894	396,589	1,136,648	(69,657)
Community services	783,755	662,855	138,891	17,991
Interest on long-term debt	<u>1,816,709</u>	<u>-</u>	<u>-</u>	<u>(1,816,709)</u>
Total governmental activities	<u>\$ 44,003,116</u>	<u>\$ 1,247,172</u>	<u>\$ 13,352,764</u>	<u>(29,403,180)</u>
General revenues				
Property taxes, levied for general purposes				3,850,048
Property taxes, levied for debt service				7,235,164
State aid - unrestricted				20,714,694
Interest and investment earnings				87,395
Other				<u>218,693</u>
Total general revenues				<u>32,105,994</u>
Change in net position				2,702,814
Net position - beginning, as restated				<u>(49,381,653)</u>
Net position - ending				<u>\$ (46,678,839)</u>

See Accompanying Notes to the Financial Statements

Holly Area Schools
Governmental Funds
Balance Sheet
June 30, 2018

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
Assets			
Cash	\$ 3,482,413	\$ 1,788,155	\$ 5,270,568
Accounts receivable	4,333	-	4,333
Due from other funds	110,541	18,089	128,630
Due from other governmental units	5,470,138	131,593	5,601,731
Inventory	-	25,384	25,384
Prepaid items	850	94,000	94,850
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 9,068,275</u>	<u>\$ 2,057,221</u>	<u>\$ 11,125,496</u>

See Accompanying Notes to the Financial Statements

Holly Area Schools
Governmental Funds
Balance Sheet
June 30, 2018

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<hr/>			
Liabilities and Fund Balance			
Liabilities			
Accounts payable	\$ 396,841	\$ -	\$ 396,841
State aid anticipation note payable	2,480,000	-	2,480,000
Due to other funds	18,089	110,541	128,630
Due to other governmental units	366,155	-	366,155
Payroll deductions and withholdings	93,957	867	94,824
Accrued expenditures	25,794	-	25,794
Accrued salaries payable	2,869,342	2,628	2,871,970
Unearned revenue	66,753	22,808	89,561
	<hr/>	<hr/>	<hr/>
Total liabilities	6,316,931	136,844	6,453,775
	<hr/>	<hr/>	<hr/>
Fund Balance			
Non-spendable			
Inventory	-	25,384	25,384
Prepaid items	850	94,000	94,850
Restricted for			
Debt service	-	1,442,601	1,442,601
Food service	-	149,340	149,340
Assigned			
Community service	-	209,052	209,052
Unassigned	2,750,494	-	2,750,494
	<hr/>	<hr/>	<hr/>
Total fund balance	2,751,344	1,920,377	4,671,721
	<hr/>	<hr/>	<hr/>
Total liabilities and fund balance	\$ 9,068,275	\$ 2,057,221	\$ 11,125,496
	<hr/>	<hr/>	<hr/>

See Accompanying Notes to the Financial Statements

Holly Area Schools
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
June 30, 2018

Total fund balances for governmental funds	\$ 4,671,721
Total net position for governmental activities in the statement of net position is different because	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets not being depreciated	928,228
Capital assets - net of accumulated depreciation	54,524,405
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Accrued interest	(270,515)
Deferred outflows (inflows) of resources	
Deferred outflows of resources resulting from debt refunding	2,044,674
Deferred inflows of resources resulting from the net pension liability	(6,522,333)
Deferred outflows of resources resulting from the net pension liability	11,070,703
Deferred inflows of resources resulting from the net OPEB liability	(616,549)
Deferred outflows of resources resulting from the net OPEB liability	1,132,173
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities.	
Net pension liability	(50,599,001)
Net OPEB liability	(17,248,300)
Compensated absences	(501,345)
Bonds payable	(43,447,474)
Other loans payable and liabilities	<u>(1,845,226)</u>
Net position of governmental activities	<u>\$ (46,678,839)</u>

See Accompanying Notes to the Financial Statements

Holly Area Schools
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2018

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
Revenues			
Local sources	\$ 4,514,805	\$ 8,352,929	\$ 12,867,734
State sources	27,825,051	150,633	27,975,684
Federal sources	1,533,777	1,475,482	3,009,259
Interdistrict sources	<u>2,853,253</u>	<u>-</u>	<u>2,853,253</u>
Total revenues	<u>36,726,886</u>	<u>9,979,044</u>	<u>46,705,930</u>
Expenditures			
Current			
Education			
Instruction	22,646,723	243,984	22,890,707
Supporting services	13,028,363	68,610	13,096,973
Food services	-	1,452,584	1,452,584
Community services	1,724	708,523	710,247
Capital outlay	1,312,911	-	1,312,911
Debt service			
Principal	392,345	4,917,075	5,309,420
Interest and other expenditures	<u>32,003</u>	<u>1,904,893</u>	<u>1,936,896</u>
Total expenditures	<u>37,414,069</u>	<u>9,295,669</u>	<u>46,709,738</u>
Excess (deficiency) of revenues over expenditures	<u>(687,183)</u>	<u>683,375</u>	<u>(3,808)</u>

See Accompanying Notes to the Financial Statements

Holly Area Schools
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2018

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
Other Financing Sources (Uses)			
Capital leases	1,110,036	-	1,110,036
Transfers in	25,980	-	25,980
Transfers out	-	(25,980)	(25,980)
	<u> </u>	<u> </u>	<u> </u>
Total other financing sources (uses)	<u>1,136,016</u>	<u>(25,980)</u>	<u>1,110,036</u>
Net change in fund balance	448,833	657,395	1,106,228
Fund balance - beginning	<u>2,302,511</u>	<u>1,262,982</u>	<u>3,565,493</u>
Fund balance - ending	<u>\$ 2,751,344</u>	<u>\$ 1,920,377</u>	<u>\$ 4,671,721</u>

See Accompanying Notes to the Financial Statements

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

Net change in fund balances - Total governmental funds	\$ 1,106,228
Total change in net position reported for governmental activities in the statement of activities is different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Depreciation expense	(3,947,838)
Capital outlay	1,201,811
Disposal of capital assets (net book value)	(68,429)
The statement of net position reports the net pension liability and deferred outflows of resources and deferred inflows related to the net pension liability and pension expense. However, the amount recorded on the governmental funds equals actual pension contributions.	
Net change in net pension liability	(1,557,417)
Net change in the deferral of resources related to the net pension liability	1,637,239
The statement of net position reports the net OPEB liability and deferred outflows of resources and deferred inflows related to the net OPEB liability and OPEB expense. However, the amount recorded on the governmental funds equals actual OPEB contributions.	
Net change in net OPEB liability	172,844
Net change in the deferral of resources related to the net OPEB liability	(339,341)
Expenses are recorded when incurred in the statement of activities.	
Interest	40,631
Special termination benefits	181,846
Compensated absences	(3,700)
Bond and note proceeds and capital leases are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position. 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. When debt refunding occurs, the difference in the carrying value of the refunding debt and the amount applied to the new debt is reported the same as regular debt proceeds or repayments, as a financing source or expenditure in the governmental funds. However, in the statement of net position, debt refunding may result in deferred inflows of resources or deferred outflows of resources, which are then amortized in the statement of activities.	
Debt issued	(1,110,036)
Repayments of long-term debt	5,309,420
Amortization of premiums	247,316
Amortization of deferred amount on refunding	(167,760)
Change in net position of governmental activities	<u>\$ 2,702,814</u>

See Accompanying Notes to the Financial Statements

Holly Area Schools
Fiduciary Funds
Statement of Assets and Liabilities
June 30, 2018

	<u>Agency Funds</u>
Assets	
Cash	\$ <u>374,107</u>
Liabilities	
Due to agency fund activities	\$ <u>374,107</u>

See Accompanying Notes to the Financial Statements

Holly Area Schools

Notes to the Financial Statements

June 30, 2018

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Holly Area Schools (School District) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the School District's significant accounting policies:

Reporting Entity

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate component units of the School District. The School District has no component units.

District-wide Financial Statements

The School District's basic financial statements include both district-wide (reporting for the district as a whole) and fund financial statements (reporting the School District's major funds). The district-wide financial statements categorize all non-fiduciary activities as either governmental or business type. All of the School District's activities are classified as governmental activities.

The statement of net position presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The School District's net position is reported in three parts (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position.

The statement of activities reports both the gross and net cost of each of the School District's functions. The functions are also supported by general government revenues (property taxes and certain intergovernmental revenues). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function.

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). The School District does not allocate indirect costs. In creating the district-wide financial statements the School District has eliminated interfund transactions.

The district-wide focus is on the sustainability of the School District as an entity and the change in the School District's net position resulting from current year activities.

Holly Area Schools

Notes to the Financial Statements

June 30, 2018

Fund Financial Statements

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District 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.

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

Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting.

The School District reports the following major governmental funds:

General Fund – The General Fund is used to record the general operations of the School District pertaining to education and those operations not required to be provided for in other funds.

Additionally, the School District reports the following funds:

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The School District's Special Revenue Funds include the Food Service and the Community Service Funds. Operating deficits generated by these activities are generally transferred from the General Fund.

Debt Service Funds – Debt Service Funds are used to record tax, interest, and other revenue and the payment of interest, principal, and other expenditures on long-term debt.

Fiduciary Funds – Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations. This fund is used to record the transactions of student groups for school and school-related purposes.

Assets, Liabilities and Equity

Receivables and Payables – Generally, outstanding amounts owed between funds are classified as "due from/to other funds". These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. The School District considers all accounts receivable to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded.

Holly Area Schools
Notes to the Financial Statements
June 30, 2018

Property taxes collected are based upon the approved tax rate for the year of levy. For the fiscal year ended June 30, 2018, the rates are as follows per \$1,000 of assessed value.

General Fund	
Non-principal residence exemption	18.00000
Commercial personal property	6.00000
Debt Service Funds	8.50000

School property taxes are assessed and collected in accordance with enabling state legislation by cities and townships within the School District's boundaries. The entire tax roll of the School District lies within Oakland County.

The property tax levy runs from July 1 to June 30. Property taxes become a lien on the first day of the levy year and are due on or before September 14 or February 14. Collections are forwarded to the School District as collected by the assessing municipalities. Real property taxes uncollected as of March 1 are purchased by the County of Oakland and remitted to the School District by May 15.

Inventories and Prepaid Items – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed, rather than when purchased.

Certain payments to vendors reflect costs applicable to future fiscal years. For such payments in governmental funds the School District follows the consumption method, and they therefore are capitalized as prepaid item in both district-wide and fund financial statements.

Capital Assets – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their acquisition value at the date of donation. The School District defines capital assets as assets with an initial individual cost in excess of \$5,000. Costs of normal repair and maintenance that do not add to

the value or materially extend asset lives are not capitalized. The School District does not have infrastructure assets. Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and Improvements	7-50 years
Buses and other vehicles	5-10 years
Furniture and other equipment	5-20 years

Deferred Outflows of Resources – A deferred outflow of resources is a consumption of net position by the government that is applicable to a future reporting period. Deferred amounts on bond refundings are included in the district-wide financials statements. The amounts represent the difference between the reacquisition price and the net carrying amount of the prior debt. For district-wide financial statements, the School District reports deferred outflows of resources as a result of pension and OPEB plan earnings. This amount is the result of a difference between what the plan expected to earn from plan investments and what is actually earned. This amount will be amortized over the next four years and included in pension and OPEB expense. Changes in assumptions relating to the net pension and OPEB liabilities are deferred and amortized over the expected remaining services lives of the employees and retirees in the plans. The School District also reported deferred outflows of resources for pension and OPEB contributions made after the measurement date. This amount will reduce the net pension and OPEB liabilities in the following year.

Holly Area Schools
Notes to the Financial Statements
June 30, 2018

Compensated Absences – Sick days are allotted to most employees at the beginning of each year based on job classification. Teachers, administrators and other eligible employees may accumulate an unlimited number of unused sick days. These employees who meet certain age and years of service requirements are paid for accumulated sick days at a rate determined by their job category. The remaining eligible employees may accumulate a maximum number of unused sick days to be paid out at retirement at a rate determined by their job category. There is no contractual provision for payment of unused vacation. They may be used for vacation only.

The liability for compensated absences reported in the district-wide financial statements consist of unpaid, accumulated sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments, and other employees who are expected to become eligible in the future to receive such payments upon termination, are included. The amount reported is salary related and includes no fringe benefits, since the amount of said benefits would be immaterial.

Long-term Obligations – In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period.

In the School District's fund financial statements, the face amount of the debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts are reported as other financing uses.

Pension – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Michigan Public 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.

Postemployment Benefits Other Than Pensions – For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Michigan Public 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.

Holly Area Schools

Notes to the Financial Statements

June 30, 2018

Deferred Inflows of Resources – A deferred inflow of resources is an acquisition of net position by the government that is applicable to a future reporting period. For governmental funds this includes unavailable revenue in connection with receivables for revenues that are not considered available to liquidate liabilities of the current period. Deferred amounts on bond refundings are included in the district-wide financials statements. The amounts represent the difference between the reacquisition price and the net carrying amount of the prior debt. For district-wide financial statements, the School District reports deferred inflows of resources as a result of pension and OPEB plan earnings. This amount is the result of a difference between what the plan expected to earn from the plan investments and what the plan actually earned. This amount will be amortized over the next four years and included in pension and OPEB expense. Changes in assumptions relating to the net pension and OPEB liabilities are deferred and amortized over the expected remaining services lives of the employees and retirees in the plans. Deferred inflows of resources also includes revenue received relating to the amounts included in the deferred outflows for payments related to MPSERS Unfunded Actuarial Accrued Liabilities (UAAL) Stabilization defined benefit pension statutorily required contributions.

Fund Equity – In the fund financial statements, governmental funds report fund balance in the following categories:

Non-spendable - amounts that are not available in a spendable form.

Restricted – amounts that are legally imposed or otherwise required by external parties to be used for a specific purpose.

Committed – amounts that have been formally set aside by the Board of Education for specific purposes. A fund balance commitment may be established, modified, or rescinded by a resolution of the Board of Education.

Assigned – amounts intended to be used for specific purposes, as determined by the Board of Education or the finance committee. The Board of Education has granted the finance committee the authority to assign funds. Residual amounts in governmental funds other than the General Fund are automatically assigned by their nature.

Unassigned – all other resources; the remaining fund balances after non-spendable, restrictions, commitments and assignments.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the School District's policy is to consider restricted funds spent first.

When an expenditure is incurred for purposes for which committed, assigned, or unassigned amounts could be used, the School District's policy is to consider the funds to be spent in the following order: (1) committed, (2) assigned, (3) unassigned.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, as well as deferred inflows and outflows at the date of the financial statements and the report amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

Holly Area Schools

Notes to the Financial Statements

June 30, 2018

Eliminations and Reclassifications

In the process of aggregating data for the statement of net position and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the “grossing up” effect on assets and liabilities within the governmental activities column.

Adoption of New Accounting Standards

Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined OPEB plans, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee services. It also requires additional note disclosures and required supplementary information. Statement No. 75 is effective for the fiscal year ending June 30, 2018.

Statement No. 85, *Omnibus 2017* addresses practice issues that were identified during implementation and application of certain GASB Statements. This statement covers issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits), which is effective for the fiscal year ending June 30, 2018.

Statement No. 86, *Certain Debt Extinguishment Issues* is to improve consistency in accounting and financial reporting for in-substance defeasance of debt. The statement provides uniform guidance for derecognizing debt that is defeased in substance, regardless of how cash and other monetary assets placed in an irremovable trust for the purpose of extinguishing that debt were acquired. Statement No. 86 is effective for the fiscal year ending June 30, 2018.

Upcoming Accounting and Reporting Changes

Statement No. 83, *Certain Asset Retirement Obligations* establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. The requirements of this Statement are effective for the fiscal year ending June 30, 2019.

Statement No. 84, *Fiduciary Activities* improves the guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The focus of the criteria includes the following: (1) is the government controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. The four fiduciary funds that should be reported, if applicable are: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally will report fiduciary activities that are not held in a trust or similar arrangement that meets specific criteria. The requirements of this Statement are effective for the fiscal year ending June 30, 2020.

Statement No. 87, *Leases* increases the usefulness of the District's 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 an underlying asset. A lessee will be required to recognize a lease liability and an intangible right-to-use a lease asset, and a lessor will be required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about the District's leasing activities. The requirements of this Statement are effective for the fiscal year ending June 30, 2020.

Holly Area Schools

Notes to the Financial Statements

June 30, 2018

Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* improves the information that is disclosed in notes to the District's financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities districts should include when disclosing information related to debt. It requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. It will also require that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement are effective for the fiscal year ending June 30, 2019.

Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. It requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reporting in a business-type activity or enterprise fund. Interest cost incurred before the end of a construction period should be recognized as an expenditure for financial statements prepared using the current financial resources measurement. The requirements of this Statement are effective for the fiscal year ending June 30, 2021.

The School District is evaluating the impact that the above pronouncements will have on its financial reporting.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the General and Special Revenue Funds. All annual appropriations lapse at fiscal year end, thereby canceling all encumbrances. These appropriations are reestablished at the beginning of the year.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the function level. State law requires the School District to have its budget in place by July 1. A district is not considered in violation of the law if reasonable procedures are in use by the School District to detect violations.

The Superintendent is authorized to transfer budgeted amounts between functions within any fund; however, any revisions that alter the total expenditures of any function must be approved by the Board of Education.

Budgeted amounts are as originally adopted or as amended by the Board of Education throughout the year. Individual amendments were not material in relation to the original appropriations.

Holly Area Schools

Notes to the Financial Statements

June 30, 2018

Excess of Expenditures over Appropriations

During the year, the School District incurred expenditures in certain budgetary funds which were in significant excess of the amounts appropriated, as follows:

Function	Final Budget	Amount of Expenditures	Budget Variances
General Fund			
Instructional staff	\$ 1,168,729	\$ 1,179,602	\$ 10,873
Operations and maintenance	2,942,716	3,096,849	154,133
Athletic activities	593,332	594,828	1,496
Capital outlay	1,025,000	1,312,911	287,911
Debt - principal	392,332	392,345	13

Note 3 - Deposits and Investments

The School District's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash	<u>\$ 5,270,568</u>	<u>\$ 374,107</u>	<u>\$ 5,644,675</u>

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

Deposits (checking, savings accounts, money markets, certificates of deposit)	\$ 4,405,070
Investments in securities, mutual funds, and similar vehicles	1,238,605
Petty cash and cash on hand	<u>1,000</u>
Total	<u>\$ 5,644,675</u>

As of year end, the School District had the following investments:

Investment	Fair Value	Maturities	Rating	Organization
Michigan Liquid Asset Fund	\$ 208	< 60 days	AAAm	S&P
Michigan Liquid Asset Fund - Max	<u>1,238,397</u>	< 60 days	AAAm	S&P
	<u>\$ 1,238,605</u>			

Interest rate risk – The School District does not have a formal investment policy to manage its exposure to fair value losses arising from changes in interest rates.

Credit risk – State statutes and the School District's investment policy authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the School District is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles.

Holly Area Schools

Notes to the Financial Statements

June 30, 2018

Concentration of credit risk – For an investment, this is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that in the possession of an outside party. The School District has no policy that would limit the amount that may be invested with any one issuer.

Custodial credit risk – deposits – In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. As of year end, \$ 4,153,065 of the School District's bank balance of \$ 4,403,065 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk – investments – For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of year end, none of the School District's investments were exposed to custodial credit risk.

Note 4 - Fair Value Measurements

The School District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The School District has the following recurring fair value measurements as of June 30, 2018:

Amounts invested in MILAF + Portfolio of \$ 1.239 million. The MILAF + Portfolio is not registered under Rule 2a-7 under the Investment Company Act of 1940. The money market securities are valued using amortized cost, which generally approximates the current fair value of

the security. However, the value is not obtained from a quoted price in an active market. (Level 2 inputs)

Note 5 - Capital Assets

A summary of the changes in governmental capital assets is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 928,228	\$ -	\$ -	\$ 928,228
Capital assets being depreciated				
Buildings and improvements	106,186,777	-	-	106,186,777
Equipment and furniture	7,032,759	-	-	7,032,759
Buses and other vehicles	2,703,786	120,181	1,121,235	2,784,362
Total capital assets being depreciated	115,923,322	120,181	1,121,235	116,003,898
Less accumulated depreciation for				
Buildings and improvements	50,451,210	3,417,391	-	53,868,601
Equipment and furniture	6,745,928	119,609	-	6,865,537
Buses and other vehicles	689,234	410,838	354,717	745,355
Total accumulated depreciation	57,886,372	3,947,838	354,717	61,479,493
Net capital assets being depreciated	58,036,950	(2,746,027)	766,518	54,524,405
Net capital assets	\$ 58,965,178	\$ (2,746,027)	\$ 766,518	\$ 55,452,633

Holly Area Schools
Notes to the Financial Statements
June 30, 2018

Depreciation expense was charged to activities of the School District as follows:

Governmental activities	
Instruction	\$ 2,368,740
Support services	1,355,280
Food services	150,310
Community services	<u>73,508</u>
Total governmental activities	<u>\$ 3,947,838</u>

Note 6 - Interfund Receivable and Payable and Transfers

Individual interfund receivable and payable balances at year end were:

<u>Due From Fund</u>	<u>Due to Fund</u>	<u>Amount</u>
Nonmajor Funds	General Fund	\$ 110,541
General Fund	Nonmajor Funds	<u>18,089</u>
		<u>\$ 128,630</u>

The outstanding balances between funds result mainly from the time lag between the dates that transactions are recorded in the accounting system and payments between funds are made.

Management does not anticipate individual interfund balances to remain outstanding for periods in excess of one year.

Interfund transfers consist of the following:

	<u>Transfers in</u>
	<u>General</u>
	<u>Fund</u>
Transfers out	
Nonmajor funds	<u>\$ 25,980</u>

These transfers include a transfer from the Community Service fund to the General Fund in the amount of \$ 25,980 to cover a portion of the indirect costs of the Community Service Fund.

Note 7 - Unearned Revenue

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

	<u>Unearned</u>
Grants and categorical aid payments received prior to meeting all eligibility requirements	\$ 66,753
Prepaid lunch fees	19,448
Prepaid community service fees	<u>3,360</u>
Total	<u>\$ 89,561</u>

Holly Area Schools

Notes to the Financial Statements

June 30, 2018

Note 8 - State Aid Anticipation Note

The School District issues state aid anticipation notes in advance of state aid collections, depositing the proceeds in the General Fund. These notes are necessary because the School District receives state aid from October through the following August for its fiscal year ending June 30th.

Short-term debt activity for the year was as follows:

	<u>Beginning Balance</u>	<u>Proceeds</u>	<u>Repayments</u>	<u>Ending Balance</u>
State aid anticipation note	<u>\$ 3,000,000</u>	<u>\$ 2,480,000</u>	<u>\$ 3,000,000</u>	<u>\$ 2,480,000</u>

Note 9 - Long-Term Debt

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include compensated absences, claims and judgments, termination benefits, and certain risk liabilities.

Long-term obligation activity is summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amount Due Within One Year</u>
Government obligation bonds	\$ 46,100,000	\$ -	\$ 4,910,000	\$ 41,190,000	\$ 4,885,000
Capital Leases	1,832,699	1,110,036	1,097,509	1,845,226	918,657
Compensated absences	497,645	3,700	-	501,345	-
Special termination benefits	181,846	-	181,846	-	-
Unamortized bond premium	<u>2,504,790</u>	<u>-</u>	<u>247,316</u>	<u>2,257,474</u>	<u>-</u>
Total	<u>\$ 51,116,980</u>	<u>\$ 1,113,736</u>	<u>\$ 6,436,671</u>	<u>\$ 45,794,045</u>	<u>\$ 5,803,657</u>

For governmental activities, compensated absences, capital leases, and special termination benefits are primarily liquidated by the General Fund.

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General obligation bonds payable at year end, consist of the following:

\$ 9,125,000 serial bonds due in annual installments of \$ 500,000 to \$ 1,960,000 through May 1, 2019; Interest at 2.000% to 5.000%	\$ 500,000
\$ 5,950,000 serial bonds due in annual installments of \$ 340,000 to \$ 375,000 through May 1, 2025; interest at 3.950% to 4.600%	2,575,000
\$ 20,760,000 serial and term bonds in annual installments of \$ 1,525,000 to \$ 1,820,000 through May 1, 2022; interest at 3.000% to 4.300%	7,195,000
\$ 15,605,000 serial bonds in annual installments of \$ 690,000 to \$ 1,045,000 through May 1, 2032; interest at 1.010% to 3.300%	14,130,000
\$ 6,105,000 serial and term bonds in annual installments of \$ 1,145,000 to \$ 1,270,000 through May 1, 2022; interest at 2.000% to 4.000%	4,865,000
\$ 6,505,000 serial and term bonds in annual installments of \$ 650,000 to \$ 1,490,000 through May 1, 2025; interest at 1.700% to 2.750%	6,505,000
\$ 5,460,000 serial and term bonds in annual installments of \$ 20,000 to \$ 1,790,000 through May 1, 2025; interest at 3.250% to 4.125%	<u>5,420,000</u>
Total general obligation bonded debt	<u><u>\$ 41,190,000</u></u>

Future principal and interest requirements for bonded debt are as follows:

	Principal	Interest	Total
Year Ending June 30,			
2019	\$ 4,885,000	\$ 1,623,088	\$ 6,508,088
2020	5,055,000	1,449,813	6,504,813
2021	5,165,000	1,286,158	6,451,158
2022	5,335,000	1,091,613	6,426,613
2023	4,320,000	881,933	5,201,933
2024-2028	12,255,000	2,200,860	14,455,860
2029-2032	<u>4,175,000</u>	<u>521,500</u>	<u>4,696,500</u>
Total	<u><u>\$ 41,190,000</u></u>	<u><u>\$ 9,054,965</u></u>	<u><u>\$ 50,244,965</u></u>

The general obligation bonds are payable from the Debt Service Funds. As of year end, the funds had a balance of \$ 1,442,601 to pay this debt. Future debt and interest will be payable from future tax levies.

Holly Area Schools

Notes to the Financial Statements

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Capital Leases

The School District has several capital leases for buses, other vehicles, and computer equipment. The future minimum lease payments are as follows:

	Total
Year Ending June 30,	
2019	\$ 974,736
2020	875,027
2021	69,169
2022	<u>15,387</u>
 Total minimum lease payments	 \$ 1,934,319
 Less amount representing interest:	 <u>(89,093)</u>
 Present value of minimum lease payments	 <u><u>\$ 1,845,226</u></u>

The assets acquired through capital leases are as follows:

Assets	
Buses and other vehicles	\$ 2,265,618
Equipment and furniture	503,000
Less accumulated depreciation	<u>(697,473)</u>
 Total	 <u><u>\$ 1,568,145</u></u>

Compensated Absences

Accrued compensated absences at June 30, 2018 consist of \$ 501,345 in accrued sick time benefits. The entire vested amount is considered long-term as the amount expended each year is expected to be offset by sick time earned for the year.

Special Termination Benefits

Beginning in 2000, the School District offered a voluntary severance incentive plan to employees to be paid over a five year period through 2018. The entire remaining balance was paid in the 2017-18 fiscal year.

Interest expenditures for the fiscal year in the General Fund, Food Service Fund, and Debt Service Funds were \$ 61,113, \$ 851, and \$ 1,867,475, respectively.

Note 10 - Risk Management

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

Note 11 - Pension Plan

Plan Description

The Michigan Public School Employees' Retirement System (System or MPERS) 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.

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The board consists of twelve members— eleven appointed by the Governor and the State Superintendent of Instruction, who serves as an ex-officio member.

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

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

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

Benefits Provided

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Depending on the plan option selected, member retirement benefits are determined by final average compensation, years of service, and a pension factor ranging from 1.25 percent to 1.50 percent. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

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

a refund of their contributions may reinstate their service through repayment of the refund upon satisfaction of certain requirements.

Contributions

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

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

The schedule below summarizes pension contribution rates in effect for fiscal year 2017.

Pension Contribution Rates		
Benefit Structure	Member	Employer
Basic	0.0 - 4.0%	19.03%
Member Investment Plan	3.0 - 7.0%	19.03%
Pension Plus	3.0 - 6.4%	18.40%
Defined Contribution	0.0%	15.27%

Required contributions to the pension plan from the School District were \$ 4,579,778 for the year ending September 30, 2017.

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

At June 30, 2018, the School District reported a liability of \$ 50,599,001 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2016. The School District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2017, the School District's proportion was .1966 percent, which was a decrease of .0013 percent from its proportion measured as of September 30, 2016. At September 30, 2017, the total pension expense for the School District was \$ 4,604,408.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 439,740	\$ 248,279
Changes of assumptions	5,543,523	-
Net difference between projected and actual earnings on pension plan investments	-	2,418,965
Changes in proportion and differences between the School District contributions and proportionate share of contributions	65,325	1,453,068
School District contributions subsequent to the measurement date	<u>5,022,115</u>	<u>2,402,021</u>
Total	<u>\$ 11,070,703</u>	<u>\$ 6,522,333</u>

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

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

Deferred (Inflow) and Deferred Outflow of Resources by Year (To Be Recognized in Future Pension Expenses)		
2018	\$	281,548
2019		1,236,220
2020		568,985
2021		(158,477)
Total	\$	<u>1,928,276</u>

Actuarial Assumptions

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

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions:

- Valuation Date: September 30, 2016
- Actuarial Cost Method: Entry Age, Normal
- Wage inflation rate: 3.5%
- Investment Rate of Return:
 - MIP and Basic Plans (Non-Hybrid): 7.5%
 - Pension Plus Plan (Hybrid): 7.0%
- Projected Salary Increases: 3.5 - 12.3%, including wage inflation at 3.5%
- Cost-of-Living Pension Adjustments: 3% Annual Non-Compounded for MIP Members
- Mortality: RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2017, is based on the results of an actuarial valuation date of September 30, 2016, and rolled forward using generally accepted actuarial procedures, including the experience study.

Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 4.5188.

Recognition period for assets in years is 5.0000.

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Full actuarial assumptions are available in the 2017 MPSERS Comprehensive Annual Financial Report found on the ORS website at www.michigan.gov/orsschools.

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2017, are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	28.0 %	5.6 %
Alternative Investment Pools	18.0	8.7
International Equity	16.0	7.2
Fixed Income Pools	10.5	(0.1)
Real Estate and Infrastructure Pools	10.0	4.2
Absolute Return Pools	15.5	5.0
Short Term Investment Pools	2.0	(0.9)
	<u>100.0%</u>	

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

Rate of Return

For the fiscal year ended September 30, 2017, the annual money-weighted rate of return on pension plan investment, net of pension plan investment expense, was 13.24%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

A discount rate of 7.5% was used to measure the total pension liability (7.0% for the Pension Plus plan, a hybrid plan provided through non-university employers only). This discount rate was based on the long-term expected rate of return on pension 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.

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

The following presents the School District's proportionate share of the net pension liability calculated using the discount rate of 7.5% (7.0% for the Hybrid Plan), as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage higher:

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%
<u>\$ 65,913,668</u>	<u>\$ 50,599,001</u>	<u>\$ 37,705,026</u>

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

Michigan Public School Employees' Retirement System (MPERS) Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPERS CAFR, available on the ORS website at www.michigan.gov/orsschools.

Payables to the Michigan Public School Employees' Retirement System (MPERS)

There were no significant payables to the pension plan that are not ordinary accruals to the School District.

Note 12 - Post-employment Benefits Other Than Pensions (OPEB)

Plan Description

The Michigan Public School Employees' Retirement System (System or MPERS) 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. The board consists of twelve members— eleven appointed by the Governor and the State Superintendent of Instruction, who serves as an ex-officio member.

The System's health plan provides all eligible retirees with the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act (1980 PA 300 as amended).

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

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

Benefits Provided

Benefit provisions of the postemployment healthcare plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions. Retirees have the option of health coverage, which, through 2012, was funded on a cash disbursement basis. Beginning fiscal year 2013, it is

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

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

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

Contributions

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

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

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June 30, 2018

The schedule below summarizes OPEB contribution rates in effect for fiscal year 2017.

OPEB Contribution Rates		
Benefit Structure	Member	Employer
Premium Subsidy	3.0%	5.91%
Personal Healthcare Fund (PHF)	0.0%	5.69%

Required contributions to the OPEB plan from the School District were \$ 1,516,410 for the year ended September 30, 2017.

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

At June 30, 2018, the School District reported a liability of \$ 17,248,300 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2016. The School District's proportion of the net OPEB liability was determined by dividing each employer's statutorily required OPEB contributions to the system during the measurement period by the percent of OPEB contributions required from all applicable employers during the measurement period. At September 30, 2017, the School District's proportion was .1948 percent, which was unchanged from its proportion measured as of September 30, 2016. At September 30, 2017, the total OPEB expense for the School District was \$ 1,146,225.

At June 30, 2018, the School 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
Difference between expected and actual experience	\$ -	\$ 183,644
Net difference between projected and actual earnings on OPEB plan investments	-	399,475
Changes in proportion and differences between the School District contributions and proportionate share of contributions	-	33,430
School District contributions subsequent to the measurement date	1,132,173	-
Total	<u>\$ 1,132,173</u>	<u>\$ 616,549</u>

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

Deferred (Inflow) and Deferred Outflow of Resources by Year (To Be Recognized in Future OPEB Expenses)		
2018	\$	(148,384)
2019		(148,384)
2020		(148,384)
2021		(148,384)
2022		(23,013)
Total	\$	<u>(616,549)</u>

Actuarial Assumptions

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

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions:

- Valuation Date: September 30, 2016
- Actuarial Cost Method: Entry Age, Normal
- Wage inflation rate: 3.5%
- Investment Rate of Return: 7.5%
- Projected Salary Increases: 3.5 - 12.3%, including wage inflation at 3.5%
- Healthcare Cost Trend Rate: 7.5% Year 1 graded to 3.5% Year 12
- Mortality: RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

Other Assumptions:

- Opt Out Assumptions: 21% of eligible participants hired before July 1, 2008 and 30% of those hired after June 30, 2008 are assumed to opt out of the retiree health plan
- Survivor Coverage: 80% of male retirees and 67% of female retirees are assumed to have coverages continuing after the retiree's death
- Coverage Election at Retirement: 75% of male and 60% of female future retirees are assumed to elect coverage for 1 or more dependents.

Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total OPEB liability as of September 30, 2017, is based

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on the results of an actuarial valuation date of September 30, 2016, and rolled forward using generally accepted actuarial procedures, including the experience study.

Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 5.4744.

Recognition period for assets in years is 5.0000.

Full actuarial assumptions are available in the 2017 MPSERS Comprehensive Annual Financial Report found on the ORS website at www.michigan.gov/orsschools.

Long-Term Expected Return on Plan Assets

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

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

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	28.0 %	5.6 %
Alternative Investment Pools	18.0	8.7
International Equity	16.0	7.2
Fixed Income Pools	10.5	(0.1)
Real Estate and Infrastructure Pools	10.0	4.2
Absolute Return Pools	15.5	5.0
Short Term Investment Pools	2.0	(0.9)
	<u>100.0%</u>	

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

Rate of Return

For the fiscal year ended September 30, 2017, the annual money-weighted rate of return on OPEB plan investment, net of OPEB plan investment expense, was 11.82%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

A discount rate of 7.5% was used to measure the total 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 employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member

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rate. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

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

1% Decrease 6.5%	Current Discount Rate 7.5%	1% Increase 8.5%
<u>\$ 20,202,745</u>	<u>\$ 17,248,300</u>	<u>\$ 14,740,902</u>

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

The following presents the School District's proportionate share of the net OPEB liability calculated using assumed trend rates, as well as what the School District's proportionate share of net OPEB liability would be if it were calculated using a trend rate that is 1-percentage-point lower or 1-percentage-point higher:

1% Decrease 6.5%	Current Healthcare Cost Trend Rate 7.5%	1% Increase 8.5%
<u>\$ 14,606,992</u>	<u>\$ 17,248,300</u>	<u>\$ 20,247,322</u>

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued 2017 MPSERS CAFR, available on the ORS website at www.michigan.gov/orsschools.

Payables to the OPEB Plan

There were no significant payables to the OPEB plan that are not ordinary accruals to the School District.

Note 13 - Tax Abatements

School Districts may receive reduced property tax revenues as a result of Industrial Facilities Tax exemptions and Brownfield Redevelopment Agreements granted by the various municipalities within the School District boundaries. Industrial facility exemptions are intended to promote construction of new industrial facilities, or to rehabilitate historical facilities; Brownfield redevelopment agreements are intended to reimburse taxpayers that remediate environmental contamination on their properties

For the fiscal year ended June 30, 2018, the School District's property tax revenues were reduced by \$ 0 under these programs.

There are no significant abatements made by the School District.

Note 14 - Contingent Liabilities

Amounts received or receivable from grantor agencies are subjected to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of costs which may be disallowed by the grantor cannot be determined at this time although the School District expects such amounts, if any, to be immaterial. A separate report on federal compliance has been issued for the year June 30, 2018.

Holly Area Schools
Notes to the Financial Statements
June 30, 2018

The School District is currently a defendant in a lawsuit. As of the date the financial statements were available to be issued, the amount of any potential liability is undeterminable. However, in the opinion of the School District's legal counsel, no liability is anticipated at this time.

Note 15 - Adoption of New Accounting Standards

As indicated in Note 1, the School District has adopted Government Accounting Standards Board Statement 75. This required the School District to record their proportionate share of the net OPEB liability and OPEB expense. Previously, these amounts were not recorded on the School District's statements. The standards require this change to be applied retroactively. The impact of this change is to reduce beginning net position in the statement of activities as of July 1, 2017 by \$16,566,179, restating it from (\$32,815,474) to (\$49,381,653).

REQUIRED SUPPLEMENTARY INFORMATION

Holly Area Schools
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2018

	Budgeted Amounts			Over (Under) Budget
	Original	Final	Actual	
Revenues				
Local sources	\$ 4,439,195	\$ 4,535,700	\$ 4,514,805	\$ (20,895)
State sources	26,109,006	27,806,925	27,825,051	18,126
Federal sources	1,574,690	1,634,596	1,533,777	(100,819)
Interdistrict sources	2,810,384	2,855,500	2,853,253	(2,247)
Total revenues	34,933,275	36,832,721	36,726,886	(105,835)
Expenditures				
Instruction				
Basic programs	15,448,356	16,389,852	16,188,917	(200,935)
Added needs	6,827,018	6,756,434	6,457,806	(298,628)
Supporting services				
Pupil	2,210,342	2,367,451	2,352,848	(14,603)
Instructional staff	873,461	1,168,729	1,179,602	10,873
General administration	405,108	411,708	411,405	(303)
School administration	2,065,942	2,096,208	2,066,527	(29,681)
Business	505,428	528,034	509,900	(18,134)
Operations and maintenance	2,647,336	2,942,716	3,096,849	154,133
Pupil transportation services	1,707,770	1,750,436	1,724,077	(26,359)
Central	1,075,449	1,115,326	1,092,327	(22,999)
Athletic activities	593,332	593,332	594,828	1,496
Community services	7,650	2,756	1,724	(1,032)
Intergovernmental payments	22,212	20,713	-	(20,713)
Capital outlay	1,006,000	1,025,000	1,312,911	287,911
Debt service				
Principal	416,567	392,332	392,345	13
Interest and fiscal charges	7,781	32,016	32,003	(13)
Total expenditures	35,819,752	37,593,043	37,414,069	(178,974)
Excess (deficiency) of revenues over expenditures	(886,477)	(760,322)	(687,183)	73,139

Holly Area Schools
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2018

	Budgeted Amounts		Actual	Over (Under) Budget
	Original	Final		
Other Financing Sources				
Capital leases	\$ 865,000	\$ 865,000	\$ 1,110,036	\$ 245,036
Transfers in	28,404	28,404	25,980	(2,424)
Total other financing sources	893,404	893,404	1,136,016	242,612
Net change in fund balance	6,927	133,082	448,833	315,751
Fund balance - beginning	2,302,511	2,302,511	2,302,511	-
Fund balance - ending	<u>\$ 2,309,438</u>	<u>\$ 2,435,593</u>	<u>\$ 2,751,344</u>	<u>\$ 315,751</u>

Holly Area Schools
Required Supplementary Information
Schedule of the School District's Proportionate Share of the Net Pension Liability
Michigan Public School Employees Retirement Plan
Last 10 Fiscal Years (Measurement Date September 30th of Each June Fiscal Year)

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
A. School district's proportion of the net pension liability (%)	0.1953%	0.1966%	0.2001%	0.2072%						
B. School district's proportionate share of the net pension liability	\$50,599,001	\$49,041,584	\$48,866,956	\$45,639,626						
C. School district's covered-employee payroll	\$16,312,099	\$16,385,839	\$16,626,773	\$18,086,156						
D. School district's proportionate share of the net pension liability as a percentage of its covered-employee payroll	310.19%	299.29%	293.91%	252.35%						
E. Plan fiduciary net position as a percentage of total pension liability	64.21%	63.27%	63.17%	66.20%						

Notes:

Changes of benefit terms: There were no changes of benefit terms in plan fiscal year 2017.

Changes of benefit assumptions: There were no changes of benefit assumptions in plan fiscal year 2017.

Holly Area Schools
Required Supplementary Information
Schedule of the School District's Pension Contributions
Michigan Public School Employees Retirement Plan
Last 10 Fiscal Years

		For the Years Ended June 30,									
		2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
A.	Statutorily required contributions	\$ 5,367,693	\$ 2,708,924	\$ 3,160,930	\$ 3,751,162						
B.	Contributions in relation to statutorily required contributions	<u>5,367,693</u>	<u>2,708,924</u>	<u>3,160,930</u>	<u>3,751,162</u>						
C.	Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>						
D.	School district's covered- employee payroll	\$16,603,759	\$16,312,818	\$16,456,491	\$17,432,274						
E.	Contributions as a percentage of covered-employee payroll	32.33%	16.61%	19.21%	21.52%						

Holly Area Schools
Required Supplementary Information
Schedule of the School District's Proportionate Share of the Net OPEB Liability
Michigan Public School Employees Retirement Plan
Last 10 Fiscal Years (Measurement Date September 30th of Each June Fiscal Year)

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
A. School district's proportion of the net OPEB liability (%)	0.1948%									
B. School district's proportionate share of the net OPEB liability	\$ 17,248,300									
C. School district's covered-employee payroll	\$ 16,312,099									
D. School district's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	105.74%									
E. Plan fiduciary net position as a percentage of total OPEB liability	36.39%									

Notes:

Changes of benefit terms: There were no changes of benefit terms in plan fiscal year 2017.

Changes of benefit assumptions: There were no changes of benefit assumptions in plan fiscal year 2017.

Holly Area Schools
Required Supplementary Information
Schedule of the School District's OPEB Contributions
Michigan Public School Employees Retirement Plan
Last 10 Fiscal Years

		For the Years Ended June 30,									
		2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
A.	Statutorily required contributions	\$ 1,239,743									
B.	Contributions in relation to statutorily required contributions	<u>1,239,743</u>									
C.	Contribution deficiency (excess)	<u>\$ -</u>									
D.	School district's covered- employee payroll	\$ 16,603,759									
E.	Contributions as a percentage of covered-employee payroll	7.47%									

OTHER SUPPLEMENTARY INFORMATION

Holly Area Schools
Other Supplementary Information
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2018

	Special Revenue Funds		Debt Service Funds							Total Nonmajor Governmental Funds
	Community Service	Food Service	2008	2009	2010	2012	2014	2016	2017	
Assets										
Cash	\$ 160,672	\$ 184,882	\$ 158,752	\$ 194,029	\$ 163,839	\$ 219,498	\$ 334,268	\$ 177,832	\$ 194,383	\$ 1,788,155
Due from other funds	2,089	16,000	-	-	-	-	-	-	-	18,089
Due from other governmental units	71,399	60,194	-	-	-	-	-	-	-	131,593
Inventory	-	25,384	-	-	-	-	-	-	-	25,384
Prepaid items	-	94,000	-	-	-	-	-	-	-	94,000
Total assets	<u>\$ 234,160</u>	<u>\$ 380,460</u>	<u>\$ 158,752</u>	<u>\$ 194,029</u>	<u>\$ 163,839</u>	<u>\$ 219,498</u>	<u>\$ 334,268</u>	<u>\$ 177,832</u>	<u>\$ 194,383</u>	<u>\$ 2,057,221</u>
Liabilities and Fund Balance										
Liabilities										
Due to other funds	\$ 19,542	\$ 90,999	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 110,541
Payroll deductions and withholdings	547	320	-	-	-	-	-	-	-	867
Accrued salaries payable	1,659	969	-	-	-	-	-	-	-	2,628
Unearned revenue	<u>3,360</u>	<u>19,448</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>22,808</u>
Total liabilities	<u>25,108</u>	<u>111,736</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>136,844</u>
Fund Balance										
Non-spendable										
Inventory	-	25,384	-	-	-	-	-	-	-	25,384
Prepaid items	-	94,000	-	-	-	-	-	-	-	94,000
Restricted for:										
Debt service	-	-	158,752	194,029	163,839	219,498	334,268	177,832	194,383	1,442,601
Food service	-	149,340	-	-	-	-	-	-	-	149,340
Assigned	<u>209,052</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>209,052</u>
Total fund balance	<u>209,052</u>	<u>268,724</u>	<u>158,752</u>	<u>194,029</u>	<u>163,839</u>	<u>219,498</u>	<u>334,268</u>	<u>177,832</u>	<u>194,383</u>	<u>1,920,377</u>
Total liabilities and fund balance	<u>\$ 234,160</u>	<u>\$ 380,460</u>	<u>\$ 158,752</u>	<u>\$ 194,029</u>	<u>\$ 163,839</u>	<u>\$ 219,498</u>	<u>\$ 334,268</u>	<u>\$ 177,832</u>	<u>\$ 194,383</u>	<u>\$ 2,057,221</u>

Holly Area Schools
Other Supplementary Information
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2018

	Special Revenue Funds		Debt Service Funds							Total Nonmajor Governmental Funds
	Community Service	Food Service	2008	2009	2010	2012	2014	2016	2017	
Revenues										
Local sources	\$ 677,943	\$ 397,601	\$ 521,237	\$1,975,031	\$ 327,458	\$1,006,108	\$ 1,715,192	\$ 230,472	\$1,501,887	\$ 8,352,929
State sources	-	76,916	73,717	-	-	-	-	-	-	150,633
Federal sources	415,750	1,059,732	-	-	-	-	-	-	-	1,475,482
Total revenues	<u>1,093,693</u>	<u>1,534,249</u>	<u>594,954</u>	<u>1,975,031</u>	<u>327,458</u>	<u>1,006,108</u>	<u>1,715,192</u>	<u>230,472</u>	<u>1,501,887</u>	<u>9,979,044</u>
Expenditures										
Current										
Education										
Instruction	243,984	-	-	-	-	-	-	-	-	243,984
Supporting services	68,610	-	-	-	-	-	-	-	-	68,610
Food services	-	1,452,584	-	-	-	-	-	-	-	1,452,584
Community services	708,523	-	-	-	-	-	-	-	-	708,523
Debt service										
Principal	-	7,075	365,000	1,605,000	20,000	895,000	785,000	-	1,240,000	4,917,075
Interest and other expenditures	-	851	130,141	367,614	226,606	62,669	712,548	158,736	245,728	1,904,893
Total expenditures	<u>1,021,117</u>	<u>1,460,510</u>	<u>495,141</u>	<u>1,972,614</u>	<u>246,606</u>	<u>957,669</u>	<u>1,497,548</u>	<u>158,736</u>	<u>1,485,728</u>	<u>9,295,669</u>
Excess of revenues over expenditures	<u>72,576</u>	<u>73,739</u>	<u>99,813</u>	<u>2,417</u>	<u>80,852</u>	<u>48,439</u>	<u>217,644</u>	<u>71,736</u>	<u>16,159</u>	<u>683,375</u>
Other Financing Uses										
Transfers out	(25,980)	-	-	-	-	-	-	-	-	(25,980)
Net change in fund balance	46,596	73,739	99,813	2,417	80,852	48,439	217,644	71,736	16,159	657,395
Fund balance - beginning	<u>162,456</u>	<u>194,985</u>	<u>58,939</u>	<u>191,612</u>	<u>82,987</u>	<u>171,059</u>	<u>116,624</u>	<u>106,096</u>	<u>178,224</u>	<u>1,262,982</u>
Fund balance - ending	<u>\$ 209,052</u>	<u>\$ 268,724</u>	<u>\$ 158,752</u>	<u>\$ 194,029</u>	<u>\$ 163,839</u>	<u>\$ 219,498</u>	<u>\$ 334,268</u>	<u>\$ 177,832</u>	<u>\$ 194,383</u>	<u>\$ 1,920,377</u>

Holly Area Schools
Other Supplementary Information
General Fund
Comparative Balance Sheet
June 30, 2018

	<u>2018</u>	<u>2017</u>
Assets		
Cash	\$ 3,482,413	\$ 3,536,746
Accounts receivable	4,333	3,583
Due from other funds	110,541	52,601
Due from other governmental units	5,470,138	5,238,261
Prepaid items	<u>850</u>	<u>226,395</u>
Total assets	<u>\$ 9,068,275</u>	<u>\$ 9,057,586</u>
Liabilities		
Accounts payable	\$ 396,841	\$ 294,656
State aid anticipation note payable	2,480,000	3,000,000
Due to other funds	18,089	-
Due to other governmental units	366,155	373,466
Payroll deductions and withholdings	93,957	73,885
Accrued expenditures	25,794	29,643
Accrued salaries payable	2,869,342	2,776,560
Unearned revenue	<u>66,753</u>	<u>206,865</u>
Total liabilities	<u>6,316,931</u>	<u>6,755,075</u>
Fund Balance		
Non-spendable		
Prepaid items	850	226,395
Unassigned	<u>2,750,494</u>	<u>2,076,116</u>
Total fund balance	<u>2,751,344</u>	<u>2,302,511</u>
Total liabilities and fund balance	<u>\$ 9,068,275</u>	<u>\$ 9,057,586</u>

Holly Area Schools
Other Supplementary Information
General Fund
Schedule of Revenues Compared to Budget
For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue from local sources				
Property tax levy	\$ 3,950,715	\$ 3,947,220	\$ 3,850,048	\$ (97,172)
Transportation fees	35,000	35,000	38,748	3,748
Earnings on investments	25,000	25,000	43,859	18,859
Student activities	151,000	151,000	148,980	(2,020)
Community service activities	480	480	1,844	1,364
Other local revenues	277,000	377,000	431,326	54,326
Total revenues from local sources	4,439,195	4,535,700	4,514,805	(20,895)
Revenues from state sources				
Grants - unrestricted	19,529,294	20,528,458	20,640,977	112,519
Grants - restricted	6,579,712	7,278,467	7,184,074	(94,393)
Total revenues from state sources	26,109,006	27,806,925	27,825,051	18,126
Revenues from federal sources				
Grants	1,574,690	1,634,596	1,533,777	(100,819)
Interdistrict sources				
ISD collected millage	2,717,000	2,770,091	2,770,091	-
Other	93,384	85,409	83,162	(2,247)
Total interdistrict sources	2,810,384	2,855,500	2,853,253	(2,247)
Other financing sources				
Capital leases	865,000	865,000	1,110,036	245,036
Transfers in	28,404	28,404	25,980	(2,424)
Total other financing sources	893,404	893,404	1,136,016	242,612
Total revenue and other financing sources	\$ 35,826,679	\$ 37,726,125	\$ 37,862,902	\$ 136,777

Holly Area Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Basic program - elementary				
Salaries	\$ 3,918,602	\$ 4,042,772	\$ 4,028,864	\$ (13,908)
Employee benefits	2,624,272	2,804,372	2,747,770	(56,602)
Purchased services	137,901	286,591	280,306	(6,285)
Supplies and materials	105,706	195,380	149,471	(45,909)
Other	-	555	555	-
Total elementary	6,786,481	7,329,670	7,206,966	(122,704)
Basic program - middle school				
Salaries	1,737,420	1,878,710	1,827,893	(50,817)
Employee benefits	1,085,589	1,227,479	1,189,834	(37,645)
Purchased services	50,808	70,390	105,265	34,875
Supplies and materials	70,174	80,375	99,225	18,850
Total middle school	2,943,991	3,256,954	3,222,217	(34,737)
Basic program - high school				
Salaries	2,805,112	2,761,652	2,758,080	(3,572)
Employee benefits	1,940,212	2,042,412	1,967,692	(74,720)
Purchased services	182,572	214,072	248,755	34,683
Supplies and materials	103,750	138,210	170,129	31,919
Total high school	5,031,646	5,156,346	5,144,656	(11,690)

Holly Area Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Basic program - pre-school				
Salaries	254,840	278,093	277,530	(563)
Employee benefits	136,184	129,162	136,492	7,330
Purchased services	251,820	154,708	145,558	(9,150)
Supplies and materials	34,448	12,000	9,128	(2,872)
Total pre-school	677,292	573,963	568,708	(5,255)
Basic program - summer school				
Salaries	6,160	21,920	5,549	(16,371)
Employee benefits	2,786	11,504	1,808	(9,696)
Purchased services	-	38,920	38,920	-
Supplies and materials	-	575	93	(482)
Total summer school	8,946	72,919	46,370	(26,549)
Added needs - special education				
Salaries	2,850,314	2,755,080	2,610,346	(144,734)
Employee benefits	2,321,851	2,364,766	2,249,539	(115,227)
Purchased services	79,750	90,100	162,331	72,231
Supplies and materials	23,500	23,500	23,963	463
Other	355,000	355,000	323,113	(31,887)
Total special education	5,630,415	5,588,446	5,369,292	(219,154)

Holly Area Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Added needs - compensatory education				
Salaries	492,969	605,208	588,589	(16,619)
Employee benefits	324,763	380,739	369,518	(11,221)
Purchased services	90,030	78,006	104,128	26,122
Supplies and materials	288,841	90,730	14,334	(76,396)
Total compensatory education	1,196,603	1,154,683	1,076,569	(78,114)
Added needs - career and technical education				
Supplies and materials	-	13,305	11,945	(1,360)
Pupil - guidance services				
Salaries	268,402	320,384	341,540	21,156
Employee benefits	200,554	257,973	244,258	(13,715)
Purchased services	105,500	60,500	70,954	10,454
Supplies and materials	16,634	12,750	10,234	(2,516)
Total guidance services	591,090	651,607	666,986	15,379
Pupil - health services				
Purchased services	270,892	323,392	304,295	(19,097)
Supplies and materials	6,000	6,000	6,340	340
Total health services	276,892	329,392	310,635	(18,757)

Holly Area Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Pupil - psychological services				
Salaries	30,109	30,109	29,498	(611)
Employee benefits	17,121	17,121	17,001	(120)
Purchased services	1,900	1,900	905	(995)
Supplies and materials	3,000	3,000	5,444	2,444
Total psychological services	52,130	52,130	52,848	718
Pupil - speech services				
Salaries	389,405	362,995	363,089	94
Employee benefits	278,728	259,288	257,378	(1,910)
Purchased services	2,200	2,200	412	(1,788)
Supplies and materials	2,000	2,000	3,042	1,042
Total speech services	672,333	626,483	623,921	(2,562)
Pupil - social work services				
Salaries	137,204	180,339	180,592	253
Employee benefits	87,485	115,718	118,401	2,683
Purchased services	400	400	433	33
Supplies and materials	3,400	3,400	1,366	(2,034)
Total social work services	228,489	299,857	300,792	935

Holly Area Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Pupil - teacher consultant				
Salaries	72,050	67,869	72,050	4,181
Employee benefits	39,358	50,113	43,135	(6,978)
Total teacher consultant	111,408	117,982	115,185	(2,797)
Pupil - other support services				
Salaries	750	750	453	(297)
Employee benefits	250	250	148	(102)
Purchased services	261,000	273,000	268,158	(4,842)
Supplies and materials	16,000	16,000	13,722	(2,278)
Total other pupil support services	278,000	290,000	282,481	(7,519)
Instructional staff - improvement of education				
Salaries	251,122	393,622	390,422	(3,200)
Employee benefits	133,490	232,744	250,718	17,974
Purchased services	67,751	91,734	98,077	6,343
Supplies and materials	93,512	93,512	91,746	(1,766)
Other	1,424	1,424	682	(742)
Total improvement of education	547,299	813,036	831,645	18,609
Instructional staff - educational media services				
Supplies and materials	7,750	6,250	2,796	(3,454)

Holly Area Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Instructional staff - supervision and direction of instructional staff				
Salaries	175,576	175,576	178,861	3,285
Employee benefits	107,836	107,836	105,946	(1,890)
Purchased services	32,500	32,500	26,792	(5,708)
Supplies and materials	2,000	2,000	2,116	116
Other	500	500	415	(85)
Total supervision and direction of instructional staff	318,412	318,412	314,130	(4,282)
Instructional staff - academic student assessment				
Supplies and materials	-	31,031	31,031	-
General administration - board of education				
Purchased services	73,250	73,850	83,942	10,092
Supplies and materials	500	500	592	92
Other	7,249	7,249	7,282	33
Total board of education	80,999	81,599	91,816	10,217
General administration - executive administration				
Salaries	190,213	190,213	196,870	6,657
Employee benefits	107,596	113,596	101,370	(12,226)
Purchased services	22,500	22,500	17,977	(4,523)
Supplies and materials	2,100	2,100	1,377	(723)
Other	1,700	1,700	1,995	295
Total executive administration	324,109	330,109	319,589	(10,520)

Holly Area Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
School administration - office of the principal				
Salaries	1,178,960	1,178,960	1,170,314	(8,646)
Employee benefits	773,365	798,365	774,587	(23,778)
Purchased services	95,300	106,722	111,083	4,361
Supplies and materials	14,703	9,332	6,278	(3,054)
Other	3,614	2,829	4,265	1,436
Total office of the principal	2,065,942	2,096,208	2,066,527	(29,681)
Business - fiscal services				
Salaries	130,204	128,479	128,440	(39)
Employee benefits	87,321	86,652	77,686	(8,966)
Purchased services	150,000	150,000	153,189	3,189
Supplies and materials	4,500	4,500	4,938	438
Other	4,419	4,419	3,699	(720)
Total fiscal services	376,444	374,050	367,952	(6,098)
Business - other				
Purchased services	18,984	18,984	19,277	293
Other	110,000	135,000	122,671	(12,329)
Total other business	128,984	153,984	141,948	(12,036)

Holly Area Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Operations and maintenance - operating building services				
Salaries	112,800	141,000	136,641	(4,359)
Employee benefits	101,186	118,600	121,214	2,614
Purchased services	1,498,762	1,521,006	1,524,884	3,878
Supplies and materials	831,150	902,264	1,065,839	163,575
Other	26,328	31,556	31,556	-
Total operating building services	2,570,226	2,714,426	2,880,134	165,708
Operations and maintenance - security services				
Salaries	36,000	36,000	32,066	(3,934)
Employee benefits	8,780	8,780	11,121	2,341
Purchased services	31,000	178,489	173,269	(5,220)
Supplies and materials	1,330	5,021	259	(4,762)
Total security services	77,110	228,290	216,715	(11,575)
Pupil transportation services				
Salaries	757,100	757,100	739,055	(18,045)
Employee benefits	484,781	498,359	472,271	(26,088)
Purchased services	286,439	290,527	315,464	24,937
Supplies and materials	179,000	204,000	195,336	(8,664)
Other	450	450	1,951	1,501
Total transportation services	1,707,770	1,750,436	1,724,077	(26,359)

Holly Area Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Central - communication services				
Purchased services	46,400	45,000	27,656	(17,344)
Central - staff/personnel services				
Salaries	42,750	50,550	50,496	(54)
Employee benefits	36,228	37,878	35,784	(2,094)
Purchased services	23,400	29,400	31,928	2,528
Supplies and materials	5,942	5,942	6,738	796
Other	329	329	435	106
Total staff/personnel services	108,649	124,099	125,381	1,282
Central - support services technology				
Salaries	60,000	60,000	60,000	-
Employee benefits	43,135	44,435	43,765	(670)
Purchased services	193,365	214,552	225,652	11,100
Supplies and materials	6,000	5,000	3,883	(1,117)
Other	429,000	429,000	428,205	(795)
Total support services technology	731,500	752,987	761,505	8,518
Central - pupil accounting				
Salaries	42,575	45,575	45,102	(473)
Employee benefits	21,880	23,220	22,840	(380)
Purchased services	1,750	1,750	1,519	(231)
Supplies and materials	500	500	1,162	662
Total pupil accounting	66,705	71,045	70,623	(422)

Holly Area Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Pupil activities				
Salaries	86,474	86,474	63,968	(22,506)
Employee benefits	30,721	30,721	23,288	(7,433)
Purchased services	5,000	5,000	5,807	807
Supplies and materials	-	-	14,099	14,099
Total other central	122,195	122,195	107,162	(15,033)
Athletic activities				
Salaries	180,191	180,191	181,817	1,626
Employee benefits	86,631	86,631	86,557	(74)
Purchased services	289,432	289,432	272,348	(17,084)
Supplies and materials	17,540	17,540	32,207	14,667
Other	19,538	19,538	21,899	2,361
Total athletic activities	593,332	593,332	594,828	1,496
Community services - direction				
Salaries	500	500	-	(500)
Employee benefits	150	150	-	(150)
Purchased services	750	750	-	(750)
Supplies and materials	400	400	386	(14)
Total direction	1,800	1,800	386	(1,414)

Holly Area Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Community services - community activities				
Purchased services	2,921	360	908	548
Supplies and materials	2,929	596	430	(166)
Total community activities	5,850	956	1,338	382
Intergovernmental payments				
Payments to other public schools	22,212	20,713	-	(20,713)
Capital outlay				
Basic program - high school	8,000	8,000	5,545	(2,455)
School administration - office of the principal	3,000	3,000	1,695	(1,305)
Operations and maintenance - operating building services	5,000	34,000	51,400	17,400
Pupil transportation services	865,000	865,000	1,139,600	274,600
Central - support services technology	125,000	115,000	114,671	(329)
Total capital outlay	1,006,000	1,025,000	1,312,911	287,911
Debt service				
Principal	416,567	392,332	392,345	13
Interest and other expenditures	7,781	32,016	32,003	(13)
Total debt service	424,348	424,348	424,348	-
Total expenditures	<u>\$ 35,819,752</u>	<u>\$ 37,593,043</u>	<u>\$ 37,414,069</u>	<u>\$ (178,974)</u>

Holly Area Schools
Other Supplementary Information
Fiduciary Funds
Statement of Changes in Amounts Due to Student Groups
For the Year Ended June 30, 2018

	Due to (From) Student Groups June 30, 2017	Cash Receipts	Cash Disbursements	Due to (From) Student Groups June 30, 2018
Davisburg Elementary School	\$ 19,252	\$ 74,603	\$ 74,773	\$ 19,082
Holly High School	257,477	608,836	619,946	246,367
Holly Elementary	20,774	34,826	38,763	16,837
Patterson Elementary	29,676	62,702	75,007	17,371
Sherman Middle	35,512	47,587	41,625	41,474
Rose Pioneer	8,381	44,185	39,984	12,582
Karl Richter	9,879	5,460	9,609	5,730
Administration	14,478	2,813	2,627	14,664
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 395,429</u>	<u>\$ 881,012</u>	<u>\$ 902,334</u>	<u>\$ 374,107</u>

Holly Area Schools
Other Supplementary Information
Schedule of Outstanding Bonded Indebtedness
June 30, 2018

Year Ending June 30,	2008 Refunding	2009 Refunding	2010 Refunding	2012 Refunding	2014 Refunding	2016 Refunding	2017 Refunding	Total
2019	\$ 375,000	\$ 1,820,000	\$ 20,000	\$ 500,000	\$ 900,000	\$ -	\$ 1,270,000	\$ 4,885,000
2020	370,000	1,805,000	20,000	-	940,000	650,000	1,270,000	5,055,000
2021	370,000	1,790,000	20,000	-	955,000	850,000	1,180,000	5,165,000
2022	370,000	1,780,000	20,000	-	975,000	1,045,000	1,145,000	5,335,000
2023	365,000	-	1,790,000	-	1,005,000	1,160,000	-	4,320,000
2024	365,000	-	1,780,000	-	1,030,000	1,310,000	-	4,485,000
2025	360,000	-	1,770,000	-	1,035,000	1,490,000	-	4,655,000
2026	-	-	-	-	1,035,000	-	-	1,035,000
2027	-	-	-	-	1,040,000	-	-	1,040,000
2028	-	-	-	-	1,040,000	-	-	1,040,000
2029	-	-	-	-	1,045,000	-	-	1,045,000
2030	-	-	-	-	1,045,000	-	-	1,045,000
2031	-	-	-	-	1,045,000	-	-	1,045,000
2032	-	-	-	-	1,040,000	-	-	1,040,000
Total	<u>\$ 2,575,000</u>	<u>\$ 7,195,000</u>	<u>\$ 5,420,000</u>	<u>\$ 500,000</u>	<u>\$ 14,130,000</u>	<u>\$ 6,505,000</u>	<u>\$ 4,865,000</u>	<u>\$ 41,190,000</u>
Principal payments due the first day of	May	May	May	May	May	May	May	
Interest payments due the first day of	May and November	May and November	May and November	May and November	May and November	May and November	May and November	
Interest rate	3.95% - 4.60%	3.00% - 4.00%	3.250% - 4.125%	2.00% - 5.00%	1.01% - 3.30%	1.70% - 2.75%	2.00% - 4.00%	
Original issue	<u>\$ 5,950,000</u>	<u>\$ 20,760,000</u>	<u>\$ 5,460,000</u>	<u>\$ 9,125,000</u>	<u>\$ 15,605,000</u>	<u>\$ 6,505,000</u>	<u>\$ 6,105,000</u>	

Holly Area Schools

Single Audit Report

June 30, 2018



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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*

Independent Auditors' Report

Management and the Board of Education
Holly Area Schools
Holly, 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 Holly Area Schools, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Holly Area Schools' basic financial statements, for the year then ended, and have issued our report thereon dated September 7, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Holly Area 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 Holly Area Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of Holly Area 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 Holly Area 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.

Yeo & Yeo, P.C.

Flint, Michigan
September 7, 2018

Report on Compliance For Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Independent Auditors' Report

Management and the Board of Education
Holly Area Schools
Holly, Michigan

Report on Compliance for Each Major Federal Program

We have audited Holly Area Schools' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Holly Area Schools' major federal programs for the year ended June 30, 2018. Holly Area Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Holly Area Schools' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Holly Area Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Holly Area Schools' compliance.

Opinion on Each Major Federal Program

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

Report on Internal Control over Compliance

Management of Holly Area Schools is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Holly Area Schools' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Holly Area Schools' internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Holly Area Schools, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Holly Area Schools' basic financial statements. We issued our report thereon dated September 7, 2018, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic

financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Yeo & Yeo, P.C.

Flint, Michigan
September 7, 2018

Holly Area Schools
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

Federal Grantor Pass through Grantor Program Title Grant Number	Federal CFDA Number	Award Grant Entitlement Program Amount	Inventory/ Accrued (Unearned) Revenue at July 1, 2017	Prior Year Expenditures	Current Year Expenditures	Current Year Cash Payments/ In Kind Received	Adjustments	Inventory/ Accrued (Unearned) Revenue at June 30, 2018
U.S. DEPARTMENT OF AGRICULTURE								
Nutrition Cluster								
Passed through Michigan Department of Education								
Non-Cash Assistance (Commodities)								
National School Lunch Program - Entitlements	10.555	\$ 106,629	\$ -	\$ -	\$ 106,629	\$ 106,629	\$ -	\$ -
Cash Assistance								
School Breakfast Program	10.553							
171970		217,389	-	195,202	22,187	22,187	-	-
181970		214,808	-	-	214,808	201,397	-	13,411
Total School Breakfast Program		432,197	-	195,202	236,995	223,584	-	13,411
National School Lunch Program	10.555							
171960		532,784	-	478,437	54,347	54,347	-	-
181960		546,689	-	-	546,689	513,130	-	33,559
Total National School Lunch Program		1,079,473	-	478,437	601,036	567,477	-	33,559
Summer Food Service Program for Children	10.559							
170900		30,952	5,355	5,355	25,597	30,952	-	-
171900		2,579	450	450	2,129	2,579	-	-
180900		4,468	-	-	4,468	-	-	4,468
181900		375	-	-	375	-	-	375
Total Summer Food Service Program for Children		38,374	5,805	5,805	32,569	33,531	-	4,843
Total Nutrition Cluster		1,656,673	5,805	679,444	977,229	931,221	-	51,813
Passed through Michigan Department of Education								
Child and Adult Care Food Program								
171920	10.558	78,198	-	69,443	8,755	8,755	-	-
172010		4,827	-	4,261	566	566	-	-
181920		68,993	-	-	68,993	68,701	-	292
182010		4,189	-	-	4,189	4,189	-	-
Total Child and Adult Care Food Program		156,207	-	73,704	82,503	82,211	-	292
TOTAL U.S. DEPARTMENT OF AGRICULTURE		1,812,880	5,805	753,148	1,059,732	1,013,432	-	52,105

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

Holly Area Schools
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

Federal Grantor Pass through Grantor Program Title Grant Number	Federal CFDA Number	Award Grant Entitlement Program Amount	Inventory/ Accrued (Unearned) Revenue at July 1, 2017	Prior Year Expenditures	Current Year Expenditures	Current Year Cash Payments/ In Kind Received	Adjustments	Inventory/ Accrued (Unearned) Revenue at June 30, 2018
U.S. DEPARTMENT OF EDUCATION								
Special Education Cluster (IDEA)								
Passed through the Oakland Intermediate School District								
Special Education - Grants to States	84.027							
170450-44		997,798	250,450	989,361	8,437	258,887		-
180450-44		953,780	-	-	934,644	666,001	-	268,643
Total Special Education - Grants to States		1,951,578	250,450	989,361	943,081	924,888	-	268,643
Special Education - Preschool Grants	84.173							
170460-44		23,850	5,885	23,850	-	5,885	-	-
180460-44		21,492	-	-	21,492	15,950	-	5,542
Total Special Education - Preschool Grants		45,342	5,885	23,850	21,492	21,835	-	5,542
Total Special Education Cluster (IDEA)		1,996,920	256,335	1,013,211	964,573	946,723	-	274,185
Passed through the Michigan Department of Education								
Title I Grants to Local Educational Agencies	84.010							
171530-1617		471,622	173,564	424,671	14,987	188,551	-	-
181530-1718		452,794	-	-	394,756	210,422	-	184,334
Total Title I Grants to Local Educational Agencies		924,416	173,564	424,671	409,743	398,973	-	184,334
Title III English Language Acquisition State Grants	84.365							
170580-1617		28,967	21,250	25,381	-	21,250	-	-
180580-1718		25,740	-	-	953	-	-	953
Total Title III English Language Acquisition State Grants		54,707	21,250	25,381	953	21,250	-	953
Title IIA Supporting Effective Instruction State Grant	84.367							
170520-1617		133,856	37,191	123,704	-	37,191	-	-
180520-1718		132,948	-	-	132,948	97,944	-	35,004
Total Title IIA Supporting Effective Instruction State Grant		266,804	37,191	123,704	132,948	135,135	-	35,004
Title IV Student Support and Academic Enrichment Program								
180750-1718	84.424	10,000	-	-	10,000	-	-	10,000
TOTAL U.S. DEPARTMENT OF EDUCATION		3,252,847	488,340	1,586,967	1,518,217	1,502,081	-	504,476

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

Holly Area Schools
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

Federal Grantor Pass through Grantor Program Title Grant Number	Federal CFDA Number	Award Grant Entitlement Program Amount	Inventory/ Accrued (Unearned) Revenue at July 1, 2017	Prior Year Expenditures	Current Year Expenditures	Current Year Cash Payments/ In Kind Received	Adjustments	Inventory/ Accrued (Unearned) Revenue at June 30, 2018
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES Passed through the Oakland Intermediate School District Substance Abuse and Mental Health Services Projects of Regional and National Significance 2017-18	93.243	11,367	-	-	11,367	11,367	-	-
Direct Award								
Drug-Free Communities Support Program Grants	93.276							
H9SP15669A-1617		125,000	29,655	87,918	36,894	66,549	-	-
H9SP15669A-1718		125,000	-	-	100,954	58,978	-	41,976
Total Drug-Free Communities Support Program Grant		250,000	29,655	87,918	137,848	125,527	-	41,976
Passed through the Oakland Livingston Human Service Agency								
Head Start	93.600							
2017		232,587	49,506	118,323	114,264	163,770	-	-
2018		232,587	-	-	136,631	114,650	-	21,981
Total Head Start		465,174	49,506	118,323	250,895	278,420	-	21,981
Medicaid Cluster								
Passed through the Oakland Intermediate School District Medical Assistance Program	93.778							
17-18		4,193	-	-	4,193	4,193	-	-
Passed through the Oakland County Health Division Office of Substance Abuse Services								
Block Grants for Prevention and Treatment of Substance Abuse	93.959							
2017		24,800	4,095	19,209	5,591	9,686	-	-
2018		24,766	-	-	21,416	19,532	-	1,884
Total Block Grants for Prevention and Treatment of Substance Abuse		49,566	4,095	19,209	27,007	29,218	-	1,884
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		780,300	83,256	225,450	431,310	448,725	-	65,841
TOTAL FEDERAL AWARDS		\$ 5,846,027	\$ 577,401	\$ 2,565,565	\$ 3,009,259	\$ 2,964,238	\$ -	\$ 622,422

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

Holly Area Schools
Notes to the Schedule of Expenditures of Federal Awards
June 30, 2018

Note 1 - Basis of Presentation

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

Note 2 - Summary of Significant Accounting Policies

Expenditures

Expenditures reported on the SEFA are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, where certain types of expenditures are not allowable or are limited as to reimbursement.

Indirect Cost Rate

Holly Area Schools has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 3 - Reconciliation to the Financial Statements

Federal revenues reported in the financial statements equal the expenditures reported on the SEFA.

Note 4 - Other Reconciliations

Management has reported the expenditures in the SEFA equal to those amounts reported in the annual or final cost reports that have been submitted for that particular grant year.

The federal amounts reported on the CMS Grant Auditor Report (GAR) are in agreement with the SEFA.

The amounts reported on the Recipient Entitlement Balance Report (PAL Report) agree with the SEFA for USDA donated food commodities.

Note 5 – Subrecipients

The School District did not transfer any federal funds to subrecipients during the fiscal year.

Holly Area Schools
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued on whether the financial statements were prepared in accordance with Generally Accepted Accounting Principles:

Unmodified

Internal control over financial reporting:

- | | | | |
|---------------------------------------------------------------------------------------------|-----------|---------------|---------------|
| • Material weakness(es) identified? | _____ Yes | _____ X _____ | No |
| • Significant deficiency(ies) identified that are not considered to be material weaknesses? | _____ Yes | _____ X _____ | None reported |
| Noncompliance material to financial statements noted? | _____ Yes | _____ X _____ | No |

Federal Awards

Internal control over major programs:

- | | | | |
|-----------------------------------------------------------------------------------------------|-----------|---------------|---------------|
| • Material weakness(es) identified? | _____ Yes | _____ X _____ | No |
| • Significant deficiency(ies) identified that are not considered to be material weakness(es)? | _____ Yes | _____ X _____ | None reported |

Type of auditors' report issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with §200.516(a)?

_____ Yes _____ X _____ No

Holly Area Schools
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018

Identification of major programs:

CFDA Numbers
84.027/84.173

Name of Federal Program
Special Education Cluster

Dollar threshold used to distinguish
between type A and type B programs:

\$ 750,000

Auditee qualified as low-risk auditee:

 X Yes

 No

Section II - Financial Statement Findings

No matters were noted.

Section III - Federal Award Findings and Questioned Costs

No matters were noted.

Holly Area Schools
Summary Schedule of Prior Audit Findings
June 30, 2018

There were no findings for the year ended June 30, 2017.

September 7, 2018

Management and the Board of Education
Holly Area Schools
Holly, Michigan

We have completed our audit of the financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Holly Area Schools as of and for the year ended June 30, 2018, and have issued our report dated September 7, 2018. We are required to communicate certain matters to you in accordance with auditing standards generally accepted in the United States of America that are related to internal control and the audit. The first appendix to this letter sets forth those communications as follows:

I. Auditors' Communication of Significant Matters with Those Charged with Governance

In addition, we have identified additional matters that are not required to be communicated but we believe are valuable for management:

II. Matters for Management's Consideration

We discussed these matters with various personnel in the School District during the audit and with management. We would also be pleased to meet with you to discuss these matters at your convenience.

These communications are intended solely for the information and use of management, the Board of Education, and others within the School District, and are not intended to be and should not be used by anyone other than those specified parties.

Yeo & Yeo, P.C.

Flint, Michigan

Appendix I

Auditors' Communication of Significant Matters with Those Charged with Governance

Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards* and Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter dated May 29, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the School District are described in Note 1 of the financial statements. The School District has adopted the new Government Accounting Standards Board Statements as noted in the notes to the financial statements, effective July 1, 2017.

We noted no transactions entered into by the School District during the year where there is lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

- The useful lives of its capital assets. Useful lives are estimated based on the expected length of time during which the asset is able to deliver a given level of service.
- Net pension liability, and related deferred outflows of resources and deferred inflows of resources. The estimate is based on an actuarial report.
- Net OPEB liability, and related deferred outflows of resources and deferred inflows of resources. The estimate is based on an actuarial report.

We have evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole and free from bias.

Disclosures in the financial statements are neutral, consistent and clear.

Accounting Standards and Regulatory Updates

Accounting Standards

The Governmental Accounting Standards Board has released the following Statements:

Statement No. 83, *Certain Asset Retirement Obligations* establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. The requirements of this Statement are effective for the fiscal year ending June 30, 2019.

Statement No. 84, *Fiduciary Activities* improves the guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The criteria generally is on (1) is the government controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. The four fiduciary funds that should be reported, if applicable are: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally will report fiduciary activities that are not held in a trust or similar arrangement that meets specific criteria. The requirements of this Statement are effective for the fiscal year ending June 30, 2020.

Statement No. 87, *Leases* increases the usefulness of the District's 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 an underlying asset. A lessee will be required to recognize a lease liability and an intangible right-to-use a lease asset, and a lessor will be required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about the District's leasing activities. The requirements of this Statement are effective for the fiscal year ending June 30, 2021.

Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* improves the information that is disclosed in notes to the District's financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities districts should include when disclosing information related to debt. It requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. It will also require that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement are effective for the fiscal year ending June 30, 2019.

Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. It requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reporting in a business-type activity or enterprise fund. Interest cost incurred before the end of a construction period should be recognized as an expenditure for financial statements prepared using the current financial resources measurement.

The School District is evaluating the impact the above pronouncements will have on its financial reporting.

Regulatory and Other Updates

Cybersecurity Posture

Cybersecurity posture, an overall measure of cybersecurity strength, is more prevalent than ever as organizations continue to face cybersecurity risks. Billions of emails are sent every day, some of which contain attachments with malicious files or malicious embedded links aimed at negatively impacting unsuspecting organizations. A recent study showed as many as four out of five U.S. companies have suffered from an attack. Not only can a successful attack cost thousands of dollars and put a strain on IT resources while remediation efforts are underway, but sensitive information may be breached.

Risk assessment is a first step in mitigating cybersecurity risks and improving your School District's overall cybersecurity posture. The National Institute of Standards and Technology published *Framework for Improving*

Critical Infrastructure Cybersecurity, which “enables organizations, regardless of size, degree of cybersecurity risk, or cybersecurity sophistication, to apply the principles and best practices of risk management to improving the security and resilience of critical infrastructure.” The framework is designed to cover five areas including identification, protection, detection, responsiveness and recovery. The publication can be found at www.nist.gov.

Placing significant emphasis on evaluating your School District’s cybersecurity posture, and channeling sufficient resources towards proper risk assessment, implementation, and education will reduce the likelihood of a cybersecurity threat, and help lessen the impact of a breach.

Uniform Guidance – Implementation of Federal Grant Procurement Standards

In May 2017, the federal government granted an additional one-year delay for implementation of the procurement standards under the Uniform Guidance. The grace period now extends through December 25, 2017. Therefore entities with fiscal years beginning on or after December 26, 2017 must have procurement standards, for federal expenditures, that meet the more stringent requirements of 2 CFR 200.317 to 326. For school districts, it will apply to fiscal year 2019 and therefore, must be in place starting July 1, 2018. It is imperative that your procurement policies – whatever they are documented as – be followed. The Uniform Guidance and the old guidance in the OMB Circulars provide minimum requirements that must be covered by an entity’s procurement policies. If an entity’s policies are stricter than the federal rules, the entity policies still must be followed. As you adopt new procurement policies, we also recommend that you consider separate policies for federal and non-federal expenditures to ease the administrative burden of certain federal requirements.

Fiscal Year (FY) 2019 School Aid

The School Aid budget for FY 2019 was signed in June, 2018. Following are some significant highlights of the bill:

- The per pupil Foundation Grants for FY 2019 will increase by a range of \$120 to \$240 using the “2X formula.” The increase will be added to the FY 2018 foundation grant resulting in the lowest foundation for FY 2018 being \$7,871 and the maximum state guaranteed foundation being \$8,409.
- The Pupil Membership Blend will remain at 90% of the current school year October count and 10% of the prior school year February count.
- The Section 31a At-Risk funding is maintained at \$499,000,000. Eligibility expanded to include grades K-12, from K-3, and shall use resources to address early literacy and numeracy through an evidence-based framework that uses data-driven problem solving through a multi-tiered system of supports. Adds language that for schools in which more than 40% of pupils are identified as At-Risk, a district may use the funds it receives to implement schoolwide reforms that are guided by the district’s comprehensive needs assessment and are included in the district improvement plan. Allows for up to 5% to be used for professional development.
- The per pupil funding under Section 20f will be equal to the per pupil funding in 2017-18.
- A New Section 31m has been created as a separate account to improve mental health and support services for K-12 pupils. A deposit of \$30 million has been allocated for this purpose.
- A new Section 54d appropriates \$5 million in grant funds for intermediate districts to provide pilot programs for children from birth to 3 years of age with developmental disability and/or delay.
- Section 147c has a MPSERS rate cap funding set at \$1.03 billion, which is an increase of \$72 million. The rate cap is estimated at \$690 per pupil.
- Section 147e includes \$37.6 million allocated as a direct reimbursement for additional retirement costs for specific qualified participants due to PA 92 of 2017.

Budget Assumptions & Early Warning

Each school district that has a general fund balance less than 5% of total unrestricted general revenue for either of the 2015-2016 or 2016-2017 school fiscal years is required to submit budget assumptions to the Center for Educational Performance and Information (CEPI).

Uniform Budgeting and Accounting Act (UBAA)

The UBAA establishes budget and accounting requirements for local governments and school districts, including public school academies. It also establishes oversight requirements for MDE as well as the Michigan Attorney General. Material violations of the UBAA, including but not limited to General Fund deficits, should be reported as financial statement findings in the audit report. UBAA states that if it becomes apparent during the year that the probable revenues will be less than the budgeted revenues, the fiscal officer shall present recommendations to the legislative body which, if fiscal adopted, would prevent expenditures from exceeding available revenues for the fiscal year. UBAA states that an officer of the school district shall not incur expenditures against an appropriation account in excess of the amount appropriated by the board. Noncompliance includes, but is not limited to, over-expending the budget authorized by the board. MDE is analyzing the General Fund only, and at the total revenues, expenditures and financing sources (uses) levels, rather than at the line item level. MDE has stated a 0% tolerance for UBAA noncompliance.

Current Operating Expenditures (COE) for UAAL

Effective FY 2019, the percentage change in Current Operating Expenditures (COE) from one year to the next will be used to adjust the payroll on which the UAAL rate is charged. FY 2017 reported payroll will be adjusted by the percent change in COE from 2016 to 2017 to establish the FY19 adjusted payroll. The capped UAAL rate of 20.96% continues to be used in the calculation. ORS has put examples on their website to walk the school district through the calculation.

- UAAL contributions will no longer be calculated on member wages reported throughout the FY.
- This did not affect the 2018 fiscal year, but will impact the 2019 fiscal year.
- The FY 2019 payment process for contributions will be spread out over all Employer Statements in State FY 2019 (October 2018 through September 2019).

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require that the auditor accumulate all known and likely misstatements identified during the audit, other than those the auditor believes to be trivial, and communicate them to the appropriate level of management. There were no misstatements detected as a result of audit procedures that were more than trivial.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditors' report. We are pleased to report we had no disagreements with management during the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated as of the date of the audit report.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the School District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to

check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

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

Emphasis of Matters in Independent Auditors' Report

Our report will include the following emphasis of matter paragraph:

Adoption of New Accounting Standards

As described in Note 1 to the financial statements, during the year ended June 30, 2018, the School District adopted GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Our opinions are not modified with respect to this matter.

Other Reports

Other information that is required to be reported to you is included in the: Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*; Independent Auditors' Report on Compliance For Each Major Federal Program; Independent Auditors' Report on Internal Control Over Compliance; Independent Auditors' Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance; and the Schedule of Findings and Questioned Costs. Please read all information included in those reports to ensure you are aware of relevant information.

Report on Required Supplementary Information

With respect to the required supplementary information accompanying the financial statements, which includes management's discussion and analysis, schedule of the school district's proportionate share of the net pension liability, schedule of the school district's pension contributions, schedule of the school district's proportionate share of the net OPEB liability, schedule of the school district's OPEB contributions, and budgetary comparison information, we 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 regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements.

Report on Other Supplementary Information

With respect to the other supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Appendix II

Matters for Management's Consideration

In planning and performing our audit of the financial statements of Holly Area Schools as of and for the year ended June 30, 2018, we considered Holly Area Schools' internal control over financial reporting (internal control) as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control.

However, during our audit we became aware of a matter for management's consideration that is an opportunity for strengthening internal controls and ensuring compliance with state and federal regulations. This letter does not affect our report dated September 7, 2018, on the financial statements of Holly Area Schools. Our comment and recommendation regarding this matter is:

Written Federal Grant Procedures

During examination of the School District's written federal grant procedures, we noted several revisions that should be made. The procedures should be expanded to be more specific to the School District and include titles of the actual people responsible for each step in the process, including initiation, approval, review, etc. All areas required by the Uniform Guidance and other regulations should be covered in the procedures. We provided a listing of all procedures we recommend the School District adopt or revise. We recommend the School District revises these procedures as soon as possible.