



**HILLMAN COMMUNITY SCHOOLS  
FINANCIAL REPORT  
WITH SUPPLEMENTAL INFORMATION  
June 30, 2019**

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**INDEPENDENT AUDITORS' REPORT**

To The Board of Education  
Hillman Community Schools  
Alpena, Montmorency and Presque Isle Counties, Michigan  
Hillman, Michigan 49746

**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 Hillman Community Schools, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Hillman Community Schools' basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

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

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

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Hillman Community Schools, as of June 30, 2019, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Budgetary Comparison Information 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.

*Prior year information*

The financial statements contain summarized total information as of and for the year ended June 30, 2018. The prior year information was obtained from the audited financial statements for the prior year and is consistent, in all material respects, with the audited financial statements from which it was derived.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Hillman Community Schools' basic financial statements. The schedules of revenues and expenditures and the indebtedness schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

**Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated October 2, 2019, on our consideration of the Hillman Community Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 Hillman Community School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Hillman Community Schools' internal control over financial reporting and compliance.

QUAST, JANKE AND COMPANY

*Quast, Janke and Company*

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Certified Public Accountants, P.C

Bay City, Michigan 48708

October 2, 2019

# HILLMAN COMMUNITY SCHOOLS MANAGEMENT'S DISCUSSION AND ANALYSIS

**June 30, 2019**

This section of Hillman Community Schools' annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2019. Please read it in conjunction with the School District's 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 Hillman Community Schools 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 longer-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 district-wide financial statements by providing information about the School District's most significant funds – the General Fund, the Food Service Fund, and the 2015 Debt Retirement Fund. The remaining statement, the statement of fiduciary net position, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

Management's Discussion and Analysis (MD&A)  
(Required Supplemental Information)

### Basic Financial Statements

District-wide Financial Statements    Fund Financial Statements

Notes to the Financial Statements

Required Supplemental Information

Budgetary Information for the Major Funds

Schedule of Reporting Units Contributions

Notes to the Required Supplementary Information

Other Supplemental Information

**HILLMAN COMMUNITY SCHOOLS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2019**

**Reporting the School District as a Whole**

*District-wide Financial Statements*

One of the most important questions asked about the School District is, “As a whole, what is the School 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 you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year’s revenue and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District’s net position – the difference between assets and liabilities, as 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, the School District’s goal is to provide services to their students, not to generate profits as commercial entities strive to do. One must consider many other nonfinancial factors, such as the quality of the education provided to students and the safety of the schools, to assess the overall health of the School District.

The statements of net position and statement of activities report the governmental activities for the School District, which encompass all of the School District’s services, including instruction, supporting 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.

**Reporting the School District’s Most Significant Funds**

*Fund Financial Statements*

The School District’s 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 or by bond covenants. Other funds are established to help the School District control and manage money for particular purposes or to meet legal responsibilities for using certain taxes, grants, and other sources of revenue. The School District’s two types of funds, governmental and fiduciary, use different accounting approaches as further described in the notes to the financial statements.

**HILLMAN COMMUNITY SCHOOLS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2019**

*Governmental funds*

Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps the reader determine what financial resources are readily available to spend in the near future to finance the School District's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the basic financial statements.

*Fiduciary Funds*

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in separate statements of Fiduciary Net Position and Changes in Fiduciary Net Position. We exclude these activities from the School District's other financial statements because the assets cannot be utilized by the School District to finance its operations.



**HILLMAN COMMUNITY SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2019**

**District-wide Financial Analysis**

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, 2019 and 2018:

Table 1

|  | Governmental Activities   |                           |
|--|---------------------------|---------------------------|
|  | June 30, 2019             | June 30, 2018             |
| <b>Assets:</b>                                   |                           |                           |
| Current and other assets                         | \$ 1,270,158              | \$ 1,406,154              |
| Capital assets - net of accumulated depreciation | 5,353,290                 | 5,622,368                 |
| <br>Total Assets                                 | <br>6,623,448             | <br>7,028,522             |
| <br>Deferred outflows of resources               | <br>2,797,831             | <br>1,661,070             |
| <b>Liabilities:</b>                              |                           |                           |
| Current liabilities                              | 1,090,862                 | 1,057,354                 |
| Long-term liabilities                            | 11,201,450                | 11,142,977                |
| <br>Total liabilities                            | <br>12,292,312            | <br>12,200,331            |
| <br>Deferred inflows of resources                | <br>1,703,792             | <br>1,056,688             |
| <b>Net Position:</b>                             |                           |                           |
| Net investment in capital assets                 | 3,249,707                 | 3,017,368                 |
| Restricted - Debt service                        | 91,421                    | 64,817                    |
| Restricted - Food service                        | 13,739                    | 14,915                    |
| Unrestricted                                     | (7,929,692)               | (7,664,527)               |
| <br>Net Position                                 | <br><u>\$ (4,574,825)</u> | <br><u>\$ (4,567,427)</u> |

The above analysis focuses on the net position (see Table 1). The School District's net position was \$(4,574,825) at June 30, 2019. Net investment in capital assets totaling \$3,249,707 compares 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. Restricted net position is reported separately to show legal constraint from debt requirements and legislation that limit the School District's ability to use those net positions for day-to-day operations.

**HILLMAN COMMUNITY SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**June 30, 2019**

The results of this year's operations for the School District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net position for fiscal years 2019 and 2018.

Table 2

|  | Governmental Activities |                   |
|--|-------------------------|-------------------|
|  | Year Ended June 30,     |                   |
|  | 2019                    | 2018              |
| <b>Revenue:</b>                            |                         |                   |
| Program revenue:                           |                         |                   |
| Charges for services                       | \$ 75,277               | \$ 104,190        |
| Grants and categorical                     | 1,366,219               | 1,306,178         |
| General revenue:                           |                         |                   |
| Property taxes                             | 2,357,893               | 2,338,471         |
| State PILT                                 | 16,238                  | 17,075            |
| State unrestricted                         | 1,485,401               | 1,664,537         |
| Investment earnings                        | 31,078                  | 14,152            |
| Other                                      | 26,636                  | 36,283            |
| <b>Total Revenue</b>                       | <b>5,358,742</b>        | <b>5,480,886</b>  |
| <b>Function/Program Expenses:</b>          |                         |                   |
| Instruction                                | 2,736,045               | 2,624,176         |
| Support services                           | 1,984,898               | 1,931,444         |
| Community services                         | 1,845                   | 1,969             |
| Food services                              | 294,949                 | 308,103           |
| Interest on long-term debt                 | 43,353                  | 83,925            |
| Depreciation (unallocated)                 | 305,050                 | 244,806           |
| <b>Total Expenses</b>                      | <b>5,366,140</b>        | <b>5,194,423</b>  |
| <b>Increase (Decrease) in Net Position</b> | <b>\$ (7,398)</b>       | <b>\$ 286,463</b> |

As reported in the statement of activities, the cost of all of our governmental activities this year was \$5,366,140. Certain activities were partially funded from those who benefited from the program or by other governments and organizations that subsidized certain programs with grants and categoricals of \$1,366,219. We paid for the remaining "public benefit" portion of our governmental activities with \$2,357,893 in taxes, \$1,485,401 in state foundation allowance, and with our other revenues, such as interest and general entitlements.

# HILLMAN COMMUNITY SCHOOLS MANAGEMENT'S DISCUSSION AND ANALYSIS

**June 30, 2019**

The School District experienced a decrease in net position of \$7,398. A key reason for the change in net position was an increase in expenses. The increase in net position differs from the change in fund balance and the reconciliation appears on page 17.

As discussed above, the net cost shows the financial burden that was placed on the State and the School District's 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 resources.

## **The School District's Funds**

As we noted earlier, the School District uses funds to help it control and manage money for particular purposes.

As the School District completed this year, the governmental funds reported a combined fund balance of \$699,681, which is a decrease of \$174,533 from last year. The primary reason for this decrease was an increase of expenses in the general fund and a decrease in revenue from the state.

The debt service fund showed an increase in fund balance of \$26,604. This was due to a slight increase in property tax revenue.

The Food Service Fund Balance decreased by \$1,176.

## **General Fund Budgetary Highlights**

Over the course of the year, the School District revises its budget as it attempts to deal with changes in revenue and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. 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. Changes to the General Fund original budget were as follows:

Budgeted revenues were increased from the original budget by \$136,011. This was due to an increase in property taxes and federal funds that were unknown at the time of the original budget.

Budgeted expenditures increased from the original budget by \$134,128. This was mainly due to an increase in Basic Programs costs.

Actual revenues were \$3,345 more than the final budget. This difference is due to Title monies allocated to carryover for next year.

Actual expenditures were \$82,031 less than the final budget. This was due to a concerted effort to stay under budget.

**HILLMAN COMMUNITY SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2019**

**Capital Assets**

At June 30, 2019, the School District had \$13,267,638 invested in a broad range of capital assets, including land, buildings, vehicles, and equipment. This amount represents a net decrease (including additions and disposals) of \$114,345.

|                               | 2019         | 2018         |
|-------------------------------|--------------|--------------|
| Land and improvements         | \$ 612,869   | \$ 598,184   |
| Buildings and improvements    | 9,785,913    | 9,775,484    |
| Buses and other vehicles      | 546,962      | 664,879      |
| Equipment                     | 2,321,894    | 2,311,036    |
| Total Capital Assets          | 13,267,638   | 13,349,583   |
| Less Accumulated Depreciation | 7,914,348    | 7,727,215    |
| Net Capital Assets            | \$ 5,353,290 | \$ 5,622,368 |

This year's additions of \$35,972 consisted of the following:

|                         |           |
|-------------------------|-----------|
| Building improvements   | \$ 10,429 |
| Furniture and equipment | 10,858    |
| Land improvements       | 14,685    |
|                         | \$ 35,972 |

**Debt**

At the end of this year, the School District had \$2,103,583 in long-term outstanding debt versus \$2,605,000 in the previous year. The debt was made up of the 2015 general obligation bonds and the 2018 bus loan.

The School District's General Obligation Bond rating continues to be equivalent to the State's credit rating. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this limit. The School District's outstanding unqualified general obligation debt of \$2,055,000 is significantly below the statutorily imposed limit.

# HILLMAN COMMUNITY SCHOOLS MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2019

## **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 2020 fiscal year is 90 percent and 10 percent of the October 2019 and February 2020 student counts, respectively. The 2020 fiscal year budget was adopted in June 2019, based on an estimate of students that will be enrolled in October of 2019. Approximately 68 percent of total General Fund revenues are from the unrestricted state aid. Under State law, the School District cannot access 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 operation. Based on early enrollment data at the start of the 2019-2020 school year, we anticipate that the fall student count will be slightly less than the estimates used in creating the 2020 fiscal year budget. 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 State periodically holds a revenue-estimating conference to estimate revenues. Based on the results of the most recent conference, the State estimates a \$120 per pupil increase in the foundation allowance.

## **Contacting the School District's Financial Management**

This financial report is designed to provide the School District's citizens, taxpayers, customers, investors and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Manager, Jill Olsen at Hillman Community Schools, 26042 M32 South, Hillman, Michigan 49746.

HILLMAN COMMUNITY SCHOOLS  
STATEMENTS OF NET POSITION  
June 30, 2019 and 2018

|  | 2019                  | 2018                  |
|--|-----------------------|-----------------------|
| <b>ASSETS:</b>                                     |                       |                       |
| Cash & equivalents                                 | \$ 346,605            | \$ 220,000            |
| Accounts receivable                                | 4,346                 | 3,857                 |
| Taxes receivable                                   | -                     | -                     |
| Due from other governmental units                  | 443,790               | 451,566               |
| Prepaid items                                      | 2,919                 | 1,249                 |
| Investments  | 468,112               | 724,929               |
| Inventories  | 4,386                 | 4,553                 |
| Capital assets                                     | 13,267,638            | 13,349,583            |
| Accumulated depreciation                           | <u>(7,914,348)</u>    | <u>(7,727,215)</u>    |
| Total Assets                                       | 6,623,448             | 7,028,522             |
| <b>DEFERRED OUTFLOWS OF RESOURCES:</b>             |                       |                       |
| Related to pensions                                | 2,429,385             | 1,507,399             |
| Related to OPEB                                    | <u>368,446</u>        | <u>153,671</u>        |
| Total Deferred Outflows of Resources               | 2,797,831             | 1,661,070             |
| <b>LIABILITIES:</b>                                |                       |                       |
| Accounts payable                                   | 100,129               | 65,461                |
| Accrued payroll and other liabilities              | 470,347               | 466,478               |
| Accrued interest                                   | 8,685                 | 20,964                |
| Compensated absences                               | 84,859                | 86,299                |
| Net OPEB liability                                 | 1,978,117             | 2,284,907             |
| Net pension liability                              | 7,546,592             | 6,671,222             |
| Current portion of long term liabilities           | 511,701               | 504,451               |
| Non current portion of long term liabilities       | <u>1,591,882</u>      | <u>2,100,549</u>      |
| Total Liabilities                                  | 12,292,312            | 12,200,331            |
| <b>DEFERRED INFLOWS OF RESOURCES:</b>              |                       |                       |
| Related to pensions                                | 1,189,906             | 979,404               |
| Related to OPEB                                    | <u>513,886</u>        | <u>77,284</u>         |
| Total Deferred Inflows of Resources                | 1,703,792             | 1,056,688             |
| <b>NET POSITION:</b>                               |                       |                       |
| Investment in capital assets - net of related debt | 3,249,707             | 3,017,368             |
| Restricted for debt service                        | 91,421                | 64,817                |
| Restricted for food service                        | 13,739                | 14,915                |
| Unrestricted (deficit)                             | <u>(7,929,692)</u>    | <u>(7,664,527)</u>    |
| Total Net Position (deficit)                       | <u>\$ (4,574,825)</u> | <u>\$ (4,567,427)</u> |

See Notes to Financial Statements

HILLMAN COMMUNITY SCHOOLS  
STATEMENT OF ACTIVITIES  
Year Ended June 30, 2019 With Comparative Totals for 2018

|   | Program Revenues    |                         |                                       |                                     | Governmental Activities  |                       |
|---|---------------------|-------------------------|---------------------------------------|-------------------------------------|--|-----------------------|
|   | Expenses            | Charges for<br>Services | Operating<br>Grants/<br>Contributions | Capital<br>Grants/<br>Contributions | Net (Expenses) Revenues And<br>Changes in Net Position<br>2019 | 2018                  |
| GOVERNMENTAL ACTIVITIES:                      |                     |                         |                                       |                                     |  |                       |
| Instruction                                   | \$ 2,736,045        | \$ -                    | \$ 906,191                            | \$ -                                | \$ (1,829,854)   | \$ (1,795,078)        |
| Supporting services                           | 1,984,898           | 26,682                  | 242,098                               | -                                   | (1,716,118)  | (1,635,439)           |
| Community services                            | 1,845               | -                       | 1,845                                 | -                                   | -  | -                     |
| Food services                                 | 294,949             | 48,595                  | 216,085                               | -                                   | (30,269)   | (24,807)              |
| Interest on long term debt                    | 43,353              | -                       | -                                     | -                                   | (43,353)   | (83,925)              |
| Depreciation (unallocated)                    | 305,050             | -                       | -                                     | -                                   | (305,050)  | (244,806)             |
| Total Governmental Activities                 | <u>\$ 5,366,140</u> | <u>\$ 75,277</u>        | <u>\$ 1,366,219</u>                   | <u>\$ -</u>                         | (3,924,644)  | (3,784,055)           |
| GENERAL PURPOSE REVENUES:                     |                     |                         |                                       |                                     |  |                       |
| Property taxes, levied for operating purposes |                     |                         |                                       |                                     | 1,809,666  | 1,799,477             |
| Property taxes, levied for debt retirement    |                     |                         |                                       |                                     | 548,227  | 538,994               |
| State school aid - unrestricted               |                     |                         |                                       |                                     | 1,485,401  | 1,664,537             |
| State PILT                                    |                     |                         |                                       |                                     | 16,238   | 17,075                |
| Investment earnings                           |                     |                         |                                       |                                     | 31,078   | 14,152                |
| Other   |                     |                         |                                       |                                     | 26,636   | 36,283                |
| Total General Purpose Revenues                |                     |                         |                                       |                                     | <u>3,917,246</u>   | <u>4,070,518</u>      |
| Change in net position                        |                     |                         |                                       |                                     | (7,398)  | 286,463               |
| Net Position (deficit) - Beginning of Year    |                     |                         |                                       |                                     | (4,567,427)  | (4,853,890)           |
| Net Position (deficit) - End of Year          |                     |                         |                                       |                                     | <u>\$ (4,574,825)</u>  | <u>\$ (4,567,427)</u> |

See Notes to Financial Statements

HILLMAN COMMUNITY SCHOOLS  
 GOVERNMENTAL FUNDS BALANCE SHEET  
 June 30, 2019 With Comparative Totals at June 30, 2018

| ASSETS   | GENERAL             | NONMAJOR<br>FOOD<br>SERVICE | MAJOR<br>2015<br>DEBT<br>RETIREMENT | Totals June 30,     |                     |
|--|---------------------|-----------------------------|-------------------------------------|---------------------|---------------------|
|  |                     |                             |                                     | 2019                | 2018                |
| Cash   | \$ 239,792          | \$ 15,392                   | \$ 91,421                           | \$ 346,605          | \$ 220,000          |
| Taxes receivable   | -                   | -                           | -                                   | -                   | -                   |
| Accounts receivable  | 3,222               | 1,124                       | -                                   | 4,346               | 3,857               |
| Grants receivable  | 34,423              | -                           | -                                   | 34,423              | 30,183              |
| Due from State of Michigan   | 407,149             | 2,218                       | -                                   | 409,367             | 421,383             |
| Due from other funds   | -                   | -                           | -                                   | -                   | 5,000               |
| Prepaid items  | 2,919               | -                           | -                                   | 2,919               | 1,249               |
| Investments  | 468,112             | -                           | -                                   | 468,112             | 724,929             |
| Inventory  | -                   | 4,386                       | -                                   | 4,386               | 4,553               |
|  | <u>1,155,617</u>    | <u>23,120</u>               | <u>91,421</u>                       | <u>1,270,158</u>    | <u>1,411,154</u>    |
| LIABILITIES AND FUND EQUITY  |                     |                             |                                     |                     |                     |
| LIABILITIES:   |                     |                             |                                     |                     |                     |
| Accounts payable   | 100,129             | -                           | -                                   | 100,129             | 65,461              |
| Salaries payable   | 310,366             | 5,565                       | -                                   | 315,931             | 294,394             |
| Retirement   | 82,315              | 1,518                       | -                                   | 83,833              | 115,714             |
| Payroll taxes  | 22,382              | 370                         | -                                   | 22,752              | 21,164              |
| Employee benefits  | 34,048              | 1,268                       | -                                   | 35,316              | 33,355              |
| Due to other funds   | -                   | -                           | -                                   | -                   | 5,000               |
| Unearned revenue   | 11,856              | 660                         | -                                   | 12,516              | 1,852               |
| Total Liabilities  | 561,096             | 9,381                       | -                                   | 570,477             | 536,940             |
| FUND BALANCES:   |                     |                             |                                     |                     |                     |
| Nonspendable   | -                   | 4,386                       | -                                   | 4,386               | 4,553               |
| Restricted   | -                   | 9,353                       | 91,421                              | 100,774             | 75,179              |
| Assigned   | -                   | -                           | -                                   | -                   | -                   |
| Committed for elementary roof repair                                   | -                   | -                           | -                                   | -                   | 30,000              |
| Committed for major repair or maint.                                   | -                   | -                           | -                                   | -                   | 20,000              |
| Unassigned   | 594,521             | -                           | -                                   | 594,521             | 744,482             |
| Total Fund Balances  | <u>594,521</u>      | <u>13,739</u>               | <u>91,421</u>                       | <u>699,681</u>      | <u>874,214</u>      |
| Total Liabilities, Deferred Inflows of<br>Resources, and Fund Balances | <u>\$ 1,155,617</u> | <u>\$ 23,120</u>            | <u>\$ 91,421</u>                    | <u>\$ 1,270,158</u> | <u>\$ 1,411,154</u> |

See Notes to Financial Statements



HILLMAN COMMUNITY SCHOOLS  
GOVERNMENTAL FUNDS  
RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO NET POSITION  
June 30, 2019

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|  |    |         |
|--|----|---------|
| TOTAL FUND BALANCES - GOVERNMENTAL FUNDS | \$ | 699,681 |
|--|----|---------|

Amounts reported for governmental activities in the statement of net position are different because -

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

|                          |  |             |
|--------------------------|--|-------------|
| Capital assets at cost   |  | 13,267,638  |
| Accumulated depreciation |  | (7,914,348) |

Deferred outflows of resources are not reported in the governmental funds-

|                     |  |           |
|---------------------|--|-----------|
| Related to pensions |  | 2,429,385 |
| Related to OPEB     |  | 368,446   |

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

|                       |  |             |
|-----------------------|--|-------------|
| Bonds payable         |  | (2,055,000) |
| Bus Loan              |  | (48,583)    |
| Compensated balances  |  | (84,859)    |
| Net OPEB liability    |  | (1,978,117) |
| Net pension liability |  | (7,546,592) |

Deferred inflows of resources are not reported in the governmental funds-

|                     |  |             |
|---------------------|--|-------------|
| Related to pensions |  | (1,189,906) |
| Related to OPEB     |  | (513,886)   |

Accrued interest payable not included as a liability in governmental activities

(8,685)

Rounding

1

|  |    |                           |
|--|----|---------------------------|
| TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES | \$ | <u><u>(4,574,825)</u></u> |
|--|----|---------------------------|

See Notes to Financial Statements

HILLMAN COMMUNITY SCHOOLS  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE  
Years Ended June 30, 2019 With Comparative Totals at June 30, 2018

|   | GENERAL           | NONMAJOR<br>FOOD<br>SERVICE | MAJOR<br>2015<br>DEBT<br>RETIREMENT | TOTALS JUNE 30,   |                   |
|---|-------------------|-----------------------------|-------------------------------------|-------------------|-------------------|
|   |                   |                             |                                     | 2019              | 2018              |
| <b>REVENUES:</b>                          |                   |                             |                                     |                   |                   |
| Local sources                             | \$ 1,912,524      | \$ 48,632                   | \$ 551,583                          | \$ 2,512,739      | \$ 2,506,829      |
| State sources                             | 2,175,835         | 27,713                      | 19,242                              | 2,222,790         | 2,402,210         |
| Federal sources                           | 232,313           | 188,372                     | -                                   | 420,685           | 402,290           |
| Interdistrict and other sources           | 202,528           | -                           | -                                   | 202,528           | 169,557           |
| <b>Total Revenues</b>                     | <b>4,523,200</b>  | <b>264,717</b>              | <b>570,825</b>                      | <b>5,358,742</b>  | <b>5,480,886</b>  |
| <b>EXPENDITURES:</b>                      |                   |                             |                                     |                   |                   |
| Instruction                               | 2,686,975         | -                           | -                                   | 2,686,975         | 2,664,502         |
| Supporting services                       | 1,994,036         | -                           | -                                   | 1,994,036         | 1,990,333         |
| Community services                        | 1,845             | -                           | -                                   | 1,845             | 1,969             |
| Food service                              | -                 | 293,370                     | -                                   | 293,370           | 308,704           |
| Debt service -                            |                   |                             |                                     |                   |                   |
| Principal repayment                       | -                 | -                           | 490,000                             | 490,000           | 485,000           |
| Interest and fiscal charges               | -                 | -                           | 54,221                              | 54,221            | 68,230            |
| <b>Total Expenditures</b>                 | <b>4,682,856</b>  | <b>293,370</b>              | <b>544,221</b>                      | <b>5,520,447</b>  | <b>5,518,738</b>  |
| <b>OTHER FINANCING SOURCES (USES):</b>    |                   |                             |                                     |                   |                   |
| Operating transfer in                     | -                 | 53,529                      | -                                   | 53,529            | 48,014            |
| Operating transfer (out)                  | (53,529)          | -                           | -                                   | (53,529)          | (48,014)          |
| Sale of assets                            | -                 | -                           | -                                   | -                 | -                 |
| Indirect costs                            | -                 | (26,052)                    | -                                   | (26,052)          | (25,000)          |
| Indirect cost recovery                    | 26,052            | -                           | -                                   | 26,052            | 25,000            |
| Redemption of school bus loans            | -                 | -                           | -                                   | -                 | 60,000            |
| Principal payments                        | (11,417)          | -                           | -                                   | (11,417)          | -                 |
| Interest on school bus loans              | (1,411)           | -                           | -                                   | (1,411)           | -                 |
| <b>Net other financing sources (uses)</b> | <b>(40,305)</b>   | <b>27,477</b>               | <b>-</b>                            | <b>(12,828)</b>   | <b>60,000</b>     |
| <b>NET CHANGE IN FUND BALANCES</b>        | <b>(199,961)</b>  | <b>(1,176)</b>              | <b>26,604</b>                       | <b>(174,533)</b>  | <b>22,148</b>     |
| <b>FUND BALANCE - BEGINNING OF YEAR</b>   | <b>794,482</b>    | <b>14,915</b>               | <b>64,817</b>                       | <b>874,214</b>    | <b>852,066</b>    |
| <b>FUND BALANCE - END OF YEAR</b>         | <b>\$ 594,521</b> | <b>\$ 13,739</b>            | <b>\$ 91,421</b>                    | <b>\$ 699,681</b> | <b>\$ 874,214</b> |

See Notes to Financial Statements

HILLMAN COMMUNITY SCHOOLS  
GOVERNMENTAL FUNDS  
RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION  
June 30, 2019

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NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ (174,533)

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

Governmental funds report capital outlays as expenditures in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

|                      |    |               |           |
|----------------------|----|---------------|-----------|
| Depreciation expense | \$ | (305,050)     |           |
| Capital outlay       |    | <u>35,972</u> |           |
| Net                  |    |               | (269,078) |

|   |        |
|---|--------|
| Accrued interest recorded in the statement of activities when incurred and reported in governmental funds when paid | 12,279 |
|---|--------|

|   |         |
|---|---------|
| Bond principal repayment reported as an expenditure in governmental funds and as a reduction of long-term debt in the statement of activities | 501,417 |
|---|---------|

|  |   |
|--|---|
| Bus loan proceeds reported as an other financing sources in governmental funds and as an increase of long-term debt in the statement of activities | - |
|--|---|

|                                   |   |
|-----------------------------------|---|
| Net increase in pension liability | - |
|-----------------------------------|---|

|  |           |
|--|-----------|
| Change in net pension liability and related deferred amounts | (163,886) |
|--|-----------|

|   |        |
|---|--------|
| Change in net OPEB liability and related deferred amounts | 84,963 |
|---|--------|

|   |       |
|---|-------|
| Decreases in compensated absences are reported as expenditures when financial resources are used in the governmental funds in accordance with GASB Interpretation No. 6 | 1,440 |
|---|-------|

|          |          |
|----------|----------|
| Rounding | <u>-</u> |
|----------|----------|

|   |                          |
|---|--------------------------|
| CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES | <u><u>\$ (7,398)</u></u> |
|---|--------------------------|

HILLMAN COMMUNITY SCHOOLS  
FIDUCIARY FUND  
STATEMENT OF FIDUCIARY NET POSITION  
Years Ended June 30, 2019 and 2018

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|                             | Student Activity Fund |                  |
|-----------------------------|-----------------------|------------------|
|                             | <u>2019</u>           | <u>2018</u>      |
| ASSETS                      |                       |                  |
| Cash in bank                | <u>\$ 77,910</u>      | <u>\$ 74,577</u> |
| LIABILITIES                 |                       |                  |
| Due to school organizations | <u>\$ 77,910</u>      | <u>\$ 74,577</u> |

See Notes to Financial Statements

HILLMAN COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2019

**Note 1. Summary of Significant Accounting Policies**

The accounting policies of Hillman Community Schools conform to United States generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the School District:

**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 Government 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 and Fund Financial Statements**

The district-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of the interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identified with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported as general revenue.

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

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

*District-wide Statements*

The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as soon as all eligibility requirements imposed by the provider have been met.

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

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted State aid.

HILLMAN COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2019

*Fund-based Statements*

Governmental funds financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within approximately 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 are also reported using the economic resources measurement focus and the modified 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 provided for in other funds. Included are all transactions related to the approved current operating budget.

*Special Revenue Fund*

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The Food Service Fund is a special revenue fund used by the School District to account for the revenues and expenditures of furnishing breakfast and lunch to the pupils in the School District. Any operating deficits generated by this activity are the responsibility of the General Fund.

*2015 Debt Retirement Fund*

The 2015 Debt Retirement Fund is used to account for the accumulation of financial resources for the payment of principal, interest and related costs of the bonds paid primarily by taxes levied on taxpayers residing within the School District. The fund balance of the 2015 Debt Retirement Fund is reserved to signify the amounts restricted exclusively for debt service requirements.

**Assets, Liabilities, and Net Position or Equity**

*Cash and Investments*

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

*Receivables and Payables*

In general, outstanding balances between funds are reported as "due to/from other funds". Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds".

HILLMAN COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2019

*Inventories and Prepaid Items*

Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both district-wide and fund financial statements.

*Capital Assets*

Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities column in the district-wide financial statements. Capital assets are defined by the School District as assets with an individual cost of more than \$1,000 and any assets susceptible to theft. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District does not have any infrastructure-type assets.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

|                               |             |
|-------------------------------|-------------|
| Buildings and additions       | 20-50 years |
| Buses and other vehicles      | 5-10 years  |
| Furniture and other equipment | 3-10 years  |

*Compensated Absences*

The liability for compensated absences reported in the district-wide financial statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees, who are currently 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.

*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.

*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 (MPSERS) and additions to/deductions from MPSERS fiduciary net position have been determined on the same basis as they are reported by MPSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. 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 (MPSERS) and additions to/deductions from MPSERS fiduciary net position have been determined on the same basis as they are reported by MPSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

HILLMAN COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2019

*Deferred Outflows and Inflows of Resources*

In addition to assets, the statement of financial position will sometimes report a separate section for *deferred outflows of resources*. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The School District has two items that qualify for reporting in this category. They relate to the School District's net pension plan and net OPEB plan liabilities and are composed from the changes in assumptions, changes in proportion and differences between the School District's contributions and proportionate share of contributions, and the School District's contributions subsequent to the measurement date.

In addition to liabilities, the statement of financial position will sometimes report a separate section for *deferred inflows of resources*. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and so will *not* be recognized as an inflow of resources (revenue) until then. The School District has two items that qualify for reporting in this category. They relate to the School District's net pension plan and net OPEB plan liabilities. They are composed from the changes in assumptions, changes in proportion and differences between the School District's contributions and proportionate share of contributions, the net difference between projected and actual earnings on plan investments and the School District's contributions subsequent to the measurement date.

*Net Position/Fund Balance*

In the government-wide statements the district reports the following components of net position:

Unrestricted – Net position that is not subject to externally imposed restrictions.

Net investment in capital assets – Capital assets, accumulated depreciation, and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

Restricted – Nonexpendable - Net position subject to externally imposed constraints that it be maintained permanently by the School District.

Restricted – Expendable – Net position whose use by the School District is subject to externally imposed constraints that can be fulfilled by actions of the School District pursuant to those constraints or that expire by the passage of time.

Fund balance classifications comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed on the use of the resources in governmental funds. Under this standard, the fund balance classifications are comprised of the following:

Non-spendable – amounts that are not in a spendable form such as inventory.

Restricted – amounts constrained to specific purposes by their providers, through constitutional provisions, or by enabling legislation.

Committed – amounts constrained to specific purposes by a government itself.

Assigned – amounts a government intends to use for a specific purpose.

Unassigned – amounts that are available for any purpose, positive amounts are only reported in general fund.



HILLMAN COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2019

*Net Position Flow Assumption*

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

*Fund Balance Flow Assumption*

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

**Program and General Revenue**

*Program Revenues*

Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational requirements for a particular function or segment. All taxes, including those dedicated for specific purposes, unrestricted state aid, interest, and other internally dedicated resources are reported as general revenues rather than a program revenues.

*Property Taxes*

Property taxes are assessed as of December 31 each year and attach as an enforceable lien on property as of the following July 1. School property taxes are levied on July 1 each year, based on the previous year's assessment, by various municipalities whose boundaries include property within the District, and are due by September 14. Delinquent real taxes are advanced to the District by the Counties involved. Taxes are recorded as revenue in the year levied. Taxes receivable are recorded for property taxes collected within 60 days of year-end, if any.

For the year ended June 30, 2019, the School District levied the following amounts per \$1,000 of assessed valuation:

| <u>Fund</u>                                | <u>Mills</u> |
|--|--------------|
| General Fund:                              |              |
| Non-Principal Resident Exemption (PRE)     | 18.000       |
| Commercial Personal Property               | 6.000        |
| 2015 Debt Retirement Fund:                 |              |
| PRE, Non-PRE, Industrial Personal Property | 3.100        |

**Use of Estimates**

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

HILLMAN COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2019

**Note 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

*Budgetary Information*

Annual budgets are adopted on a basis consistent with generally accepted accounting principles and State law for the General, Debt Service, and Special Revenue Funds. The presentation of the budget information and the basic financial statements is consistent except that capital outlay is presented within the functional categories in the budget and the General Fund budget is presented with the original and amended budget adopted. The budget for athletic activities was adopted separately and the actual results reported, as required by GASB Statement No. 54, as part of the General Fund on the statement of revenue, expenditures, and changes in fund balance. All annual appropriations lapse at fiscal yearend.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the School District to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits school districts to amend their budgets during the year. The budget was amended during the year in a legally permissible manner.

Excess of Expenditures over Appropriations in Budgeted Funds - The School District did not have significant expenditure budget variances.

Fund Deficits - The School District had no accumulated fund balance deficits.

**Note 3. CASH AND DEPOSITS WITH FINANCIAL INSTITUTIONS**

**Custodial Credit Risk of Bank Deposits**

As of June 30, 2019, the book value of the District's demand deposits, consisting of deposits and their cash equivalents, was \$424,514 with a corresponding bank balance of \$427,753. As of June 30, 2019, \$88,514 of the District's \$427,753 bank balance was exposed to custodial credit risk. Custodial credit risk 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's investment policy requires that financial institutions be evaluated and only those with an acceptable risk level be used for the School District's deposits for custodial credit risk.

HILLMAN COMMUNITY SCHOOLS  
 NOTES TO FINANCIAL STATEMENTS  
June 30, 2019

**Custodial Credit Risk of Investments**

Custodial risk 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 are in possession of an outside party. The School District's policy for custodial risk states that custodial credit will be minimized by limiting investments to the types of securities allowed by state law and by prequalifying the financial institutions, broker/dealers, intermediaries, and advisors with which the School District will do business using the criteria established in the investment policy. The School District does not have investments with custodial risk.

**Interest Rate Risk**

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The School District's investment policy does not restrict investment maturities, other than commercial paper, which can only be purchased with a 270-day maturity. The School District's policy minimizes interest rate risk by requiring the structuring of the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools; and limiting the average maturity in accordance with the School District's cash requirements.

**Foreign Currency Risk**

The District is not allowed by State statute to invest in foreign investments and accordingly has no foreign investments.

**Credit Risk**

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The School District's policy does not further limit its investment choices.

**Concentration of Credit Risk**

The School District places no limit on the amount the School District may invest in any one issuer. The School District's policy minimizes concentration of credit risk by requiring diversification of the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

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. The School District's deposits are in accordance with statutory authority.

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

|                           | Governmental<br>Activities | Fiduciary<br>Funds | Total Primary<br>Government |
|---------------------------|----------------------------|--------------------|-----------------------------|
| Cash and cash equivalents | \$ 346,605                 | \$ 77,910          | \$ 424,515                  |

The School District's cash and investments are subject to several types of risk, which are examined in more detail below:

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As of June 30, 2019, the District had the following investment:

|                                     | Fair Value        | Weighted<br>Average<br>Maturity<br>(Years) | Standard &<br>Poor's Rating | Allocation<br>Percent |
|-------------------------------------|-------------------|--|-----------------------------|-----------------------|
| MILAF+Cash Mgmt Class               | \$ 267            | 0.0027                                     | AAAm                        | 0.06%                 |
| MILAF+MAX Class                     | 467,845           | 0.0027                                     | AAAm                        | 99.94%                |
|                                     | <u>\$ 468,112</u> |  |                             | <u>100.00%</u>        |
| Portfolio Weighted Average Maturity |                   | <u>0.0027</u>                              |                             |                       |

The District invests certain excess funds in external pooled investment funds which include money market funds. One of the pooled investment funds utilized by the District is the Michigan Liquid Asset Fund Plus (MILAF+). MILAF+ is a local government investment pool of "qualified" investments for Michigan school districts. MILAF+ is not regulated nor is it registered with the SEC. MILAF+ reports as of June 30, 2019, the fair value of the District's investments is the same as the value of the pooled shares. MILAF, as defined by GASB, is recorded at amortized cost which approximates fair value. The MILAF+ portfolio offers three share classes which are: Cash Management Class, MAX Class, and GovMIC Class. The only class that has limitations or restrictions on withdrawal is MAX Class, which requires notification of redemptions prior to 14 days to avoid penalties. The MILAF+ portfolio is not subject to fair value disclosures.

**Note 4. Capital Assets**

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

|                                      | Balance<br>July 1, 2018 | Additions           | Disposals        | Balance<br>June 30, 2019 |
|--------------------------------------|-------------------------|---------------------|------------------|--------------------------|
| Capital assets not being depreciated |                         |                     |                  |                          |
| Land                                 | \$ 196,300              | \$ -                | \$ -             | \$ 196,300               |
| Capital assets being depreciated     |                         |                     |                  |                          |
| Land improvements                    | 401,884                 | 14,685              | -                | 416,569                  |
| Buildings and improvements           | 9,775,484               | 10,429              | -                | 9,785,913                |
| Buses and other vehicles             | 664,879                 | -                   | (117,917)        | 546,962                  |
| Furniture and equipment              | <u>2,311,036</u>        | <u>10,858</u>       | <u>-</u>         | <u>2,321,894</u>         |
| Total capital assets                 | 13,349,583              | 35,972              | (117,917)        | 13,267,638               |
| Accumulated depreciation:            |                         |                     |                  |                          |
| Land improvements                    | 310,188                 | 19,914              | -                | 330,102                  |
| Buildings and improvements           | 4,706,252               | 183,017             | -                | 4,889,269                |
| Buses and other vehicles             | 554,696                 | 29,553              | (117,917)        | 466,332                  |
| Furniture and equipment              | <u>2,156,079</u>        | <u>72,566</u>       | <u>-</u>         | <u>2,228,645</u>         |
| Total accumulated depreciation       | <u>7,727,215</u>        | <u>305,050</u>      | <u>(117,917)</u> | <u>7,914,348</u>         |
| Net capital assets                   | <u>\$ 5,622,368</u>     | <u>\$ (269,078)</u> | <u>\$ -</u>      | <u>\$ 5,353,290</u>      |

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

Government Activities:

|                                   |        |                    |
|-----------------------------------|--------|--------------------|
| Instruction                       | \$     | -                  |
| Support                           |        | -                  |
| Food service                      |        | -                  |
| Unallocated                       |        | <u>305,050</u>     |
| <br>Total Governmental Activities | <br>\$ | <br><u>305,050</u> |

**Note 5. Interfund Receivables, Payables and Transfers**

The composition of interfund balances at June 30, 2019 is as follows:

The composition of interfund transfers during the year ended June 30, 2018 is as follows:

| <u>Fund</u> | <u>Transfers out</u> | <u>Fund</u>  | <u>Transfers in</u> |
|-------------|----------------------|--------------|---------------------|
| General     | \$ 53,529            | Food Service | \$ 53,529           |

Transfers are used to move unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**Note 6. 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.

On February 10, 2015 the District issued 2015 Refunding Bonds in the amount of \$3,955,000. The bonds are general obligation bonds of the District, and are payable as to principal and interest from the proceeds of an annual ad valorem tax, levied without limitation as to rate or amount, on all taxable property within the boundaries of the School District. The proceeds of this issue were to be used for the purpose of refunding all of the District's outstanding 2005 Refunding Bonds dated May 1, 2005.

The Bonds are fully qualified for the Michigan School Bond Qualification and Loan Program pursuant to Act 92, Public Acts of Michigan, 2005, as amended, enacted pursuant to Article IX, Section 16 of the Michigan Constitution of 1963. Under the terms of these constitutional and statutory provisions, if for any reason the District is unable to pay principal of and interest on the Bonds when due, then the District shall borrow and the State of Michigan shall lend to it an amount sufficient to enable the District to make payment.

On September 8, 2017 the district entered into a note agreement with a financial institution in the amount of \$60,000. The note is due in yearly installments and bears a 2.49% interest rate. The proceeds of the note were used to purchase buses.

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The following is a summary of the long-term debt transactions of the School District for the year ended June 30, 2019:

|                      | <u>Beginning<br/>Balance</u> | <u>Additions</u> | <u>Reductions</u>   | <u>Ending Balance</u> |
|----------------------|------------------------------|------------------|---------------------|-----------------------|
| Debt Obligations -   |                              |                  |                     |                       |
| 2015 Refunding Bonds | \$ 2,545,000                 | \$ -             | \$ (490,000)        | \$ 2,055,000          |
| Bus loan             | 60,000                       | -                | (11,417)            | 48,583                |
|                      | <u>2,605,000</u>             | <u>-</u>         | <u>(501,417)</u>    | <u>2,103,583</u>      |
| Other Obligations -  |                              |                  |                     |                       |
| Compensated absences | 86,299                       | -                | (1,440)             | 84,859                |
|                      | <u>86,299</u>                | <u>-</u>         | <u>(1,440)</u>      | <u>84,859</u>         |
| Total long-term debt | <u>\$ 2,691,299</u>          | <u>\$ -</u>      | <u>\$ (502,857)</u> | <u>\$ 2,188,442</u>   |

Fiscal year annual debt service requirements for June 30 to maturity for the above governmental fund obligations are as follows:

|      | Principal           | Interest          | Total               |
|------|---------------------|-------------------|---------------------|
| 2020 | \$ 511,701          | \$ 44,935         | \$ 556,636          |
| 2021 | 521,993             | 34,643            | 556,636             |
| 2022 | 532,291             | 24,145            | 556,436             |
| 2023 | 537,598             | 13,438            | 551,036             |
|      | <u>\$ 2,103,583</u> | <u>\$ 117,161</u> | <u>\$ 2,220,744</u> |

**Compensated Absences**

The School District accrues a liability for compensated absences which meet the following criteria:

- (1) The School District's obligation relating to employees' rights to receive compensation for future.
- (2) The obligation relates to rights that vest or accumulate.
- (3) Payment of the compensation is probable.
- (4) The amount can be reasonably estimated.

All teaching staff, after twelve years of employment with the district, are eligible to be reimbursed for accumulated sick days, up to a maximum of 188 days, upon retirement from teaching. They will be reimbursed at .00243 times the base BA base rate in effect for the year ended June 30, 2019. As of June 30, 2019, the amount which would be due upon retirement for eligible staff is \$84,859.

**Note 7. Risk Management**

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

**Note 8. Economic Dependency**

Approximately 50% of the School District's General Fund revenues are received from the State of Michigan through the Michigan Department of Education. This School District is considered to be economically dependent on this revenue source.

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**Note 9. Tax Abatements**

Local governments can grant reduced property tax revenue, that would be due to the District, to local businesses who construct new industrial facilities or rehabilitate historical facilities under the Industrial Facilities Tax exemption (PA 198 of 1974). Under the program, the Township grants reductions of 50 percent of the property tax bill for the property (or it can freeze taxable values for rehabilitation properties) for up to 12 years. For the fiscal year ended June 30, 2019, the District's tax revenue was reduced by \$7,452 under this program.

**Note 10. Retirement Plan**

**Plan Description**

The Michigan Public School Employees' Retirement System (System or MPSERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. 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/mpsers-cafr](http://www.michigan.gov/mpsers-cafr).

**Benefits Provided**

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Depending on the plan option selected, member retirement benefits for 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 member plan member who leaves Michigan public school employment may request a refund of his or her member contributions to the retirement system account if applicable. A refund cancels a former member's rights to future benefits. However, returning members who previously received a refund of their contributions may reinstate their service through repayment of the refund upon satisfaction of certain requirements.

**Contributions and Funded Status**

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.

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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, 2017 valuation will be amortized over a 21-year period beginning October 1, 2017 and ending September 30, 2038.

The schedule below summarizes pension contribution rates in effect for fiscal year ended September 30, 2018.

| <u>Benefit Structure</u> | <b>Pension Contribution Rates</b> |                 |                  |
|--------------------------|-----------------------------------|-----------------|------------------|
|                          | <u>Member</u>                     | <u>Employer</u> |                  |
|                          |                                   | Universities    | Non-Universities |
| Basic                    | 0.0 - 4.0%                        | 24.47%          | 17.89%           |
| Member Investment Plan   | 3.0 - 7.0%                        | 24.47%          | 17.89%           |
| Pension Plus             | 3.0 - 6.4%                        | N/A             | 16.61%           |
| Pension Plus 2           | 6.2%                              | N/A             | 17.74%           |
| Defined Contribution     | 0.0%                              | 19.60%          | 13.54%           |

Required contributions to the pension plan from Hillman Community Schools were \$683,576 for the year ended September 30, 2018.

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

At June 30, 2019, the District reported a liability of \$7,546,592 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2017. 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, 2018, District's proportion was .02510359 percent, which was a decrease of .00063986 percent from its proportion measured as of September 30, 2017.

For the year ended June 30, 2019, District recognized pension expense of \$849,1701. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|   | <u>Deferred<br/>Outflows of<br/>Resources</u> | <u>Deferred<br/>Inflows of<br/>Resources</u> |
|---|---|--|
| Differences between actual and expected experience  | \$ 35,018                                     | \$ 54,840                                    |
| Changes of Assumptions  | 1,747,785                                     | -  |
| Net difference between projected and actual earnings on pension plan investments                              | -   | 515,995                                      |
| Changes in proportion and differences between Employer contributions and proportionate share of contributions | 26,265  | 344,035                                      |
| Employer contributions subsequent to the measurement date   | 620,317                                       | 275,036                                      |
| <b>Total</b>  | <u>\$ 2,429,385</u>                           | <u>\$ 1,189,906</u>                          |



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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, 2020. Other amounts 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)**

| Year Ending September 30 | Amount  |
|--------------------------|---------|
| 2019                     | 386,835 |
| 2020                     | 243,316 |
| 2021                     | 180,682 |
| 2022                     | 83,365  |

**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, 2017  |
| Actuarial Cost Method:              | Entry Age, Normal   |
| Wage Inflation Rate:                | 2.75%   |
| Investment Rate of Return:          |   |
| - MIP and Basic Q402:               | 7.05%   |
| - Pension Plus Plan:                | 7.00%   |
| - Pension Plus 2 Plan:              | 6.00%   |
| Projected Salary Increases:         | 2.75 - 11.55%, including wage inflation at 2.75%  |
| Cost-of-Living Pension Adjustments: | 3% Annual Non-Compounded for MIP Members  |
| Mortality:                          |   |
| Retirees:                           | RP-2014 Male and Female Healthy Annuitant Mortality Tables, scaled by 82% for males and 78% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006. |
| Active Members:                     | P-2014 Male and Female Employee Annuitant Mortality Tables, scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.                                 |

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**Notes:**

*Assumption changes as a result of an experience study for the period 2012 through 2017 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2017 valuation. The total pension liability as of September 30, 2018, is based on the results of an actuarial valuation date of September 30, 2017, 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: [4.5304 for non-university employers 1.0554 for university employers]*

*Recognition period for assets in years is 5.0000*

*Full actuarial assumptions are available in the 2018 MPSEERS Comprehensive Annual Financial Report found on the ORS website at [www.michigan.gov/orsschools](http://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, 2018, are summarized in the following table:

| Asset Class                          | Target Allocation | Long Term Expected Real Rate |
|--------------------------------------|-------------------|------------------------------|
| Domestic Equity Pools                | 28.0%             | 5.7%                         |
| Private Equity Pools                 | 18.0              | 9.2                          |
| International Equity Pools           | 16.0              | 7.2                          |
| Fixed Income Pools                   | 10.5              | 0.5                          |
| Real Estate and Infrastructure Pools | 10.0              | 3.9                          |
| Absolute Return Pools                | 15.5              | 5.2                          |
| Short Term Investment Pools          | 2.0               | 0.0                          |
| TOTAL                                | 100.0%            |                              |

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

**Rate of Return**

For the fiscal year ended September 30, 2018, the annual money-weighted rate of return on pension plan investment, net of pension plan investment expense, was 11.11%. 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 7.05% was used to measure the total pension liability (7.0% for the Pension Plus plan, 6.0% for the Pension Plus 2 plan provided though non-university employees only). This discount rate was based on the long term expected rate of return on pension plan investments of 7.05% (7.0% for the Pension Plus plan, 6.0% for the Pension Plus 2 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.

HILLMAN COMMUNITY SCHOOLS  
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**Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate**

The following presents Hillman Community School's proportionate share of the net pension liability calculated using the discount rate of 7.05% (7.0% for the Hybrid Plan), as well as what Hillman Community School'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         | Current Single Discount Rate<br>Assumption | 1% Increase         |
|---------------------|--|---------------------|
| 6.05% / 6.0% / 5.0% | 7.05% / 7.0% / 6.0%                        | 8.05% / 8.0% / 7.0% |
| \$ 9,908,093        | \$ 7,546,592                               | \$ 5,584,569        |

\* Discount rates listed in the following order: Basic and Member Investment Plan (MIP), Pension Plus, and Pension Plus 2. Non-university employers provide Basic, MIP, Pension Plus and Pension Plus 2 plans. University employers provide only the Basic and MIP plans.

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

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPSERS CAFR, available on the ORS website at [www.michigan.gov/orsschools](http://www.michigan.gov/orsschools).

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

The District accrued liabilities to the System in the amount of \$106,669 associated with salary and wages recorded as liabilities at year end.

**Note 11. Postemployment Benefits Other Than Pensions (OPEB)**

**Plan Description**

The Michigan Public School Employees' Retirement System (System or MPSERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. 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](http://www.michigan.gov/orsschools).

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**Benefits Provided**

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

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

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

**Contributions**

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

Employer 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, 2017 valuation will be amortized over a 21-year period beginning October 1, 2017 and ending September 30, 2038.

The schedule below summarizes OPEB contribution rates in effect for fiscal year 2018.

| <b>OPEB Contribution Rates</b> |        |              |                  |
|--------------------------------|--------|--------------|------------------|
| Benefit Structure              | Member | Employer     |                  |
|                                |        | Universities | Non-Universities |
| Premium Subsidy                | 3.00%  | 7.67%        | 6.44%            |
| Personal Healthcare            | 0.00%  | 7.42%        | 6.13%            |

Required contributions to the OPEB plan from the District were \$161,529 for the year ended September 30, 2018.

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

At June 30, 2019, District reported a liability of \$1,978,117 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2017. Hillman Community School'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, 2018, District's proportion was 0.02488526 percent, which was a decrease of .00091695 percent from its proportion measured as of October 1, 2017.

For the year ending June 30, 2019, Hillman Community Schools recognized OPEB expense of \$81,416. At June 30, 2019, Hillman Community Schools reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

|  | <u>Deferred<br/>Outflows of<br/>Resources</u> | <u>Deferred<br/>Inflows of<br/>Resources</u> |
|--|---|--|
| Differences between actual and expected experience                   | \$ -  | \$ 368,178                                   |
| Changes of Assumptions   | 209,484                                       | -  |
| Net difference between projected and actual earnings on OPEB plan    | -   | 76,024                                       |
| Changes in proportion and differences between Employer contributions | -   | 69,684                                       |
| Employer contributions subsequent to the measurement date            | 158,962                                       | -  |
| Total  | <u>\$ 368,446</u>                             | <u>\$ 513,886</u>                            |

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, 2020. 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**

| Year Ending September 30 | Amount   |
|--------------------------|----------|
| 2019                     | (73,110) |
| 2020                     | (73,110) |
| 2021                     | (73,110) |
| 2022                     | (57,591) |
| 2023                     | (27,481) |

**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

Additional information as of the latest actuarial valuation follows:

HILLMAN COMMUNITY SCHOOLS  
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June 30, 2019

**Summary of Actuarial Assumptions**

|                             |   |
|-----------------------------|---|
| Valuation Date:             | September 30, 2017  |
| Actuarial Cost Method:      | Entry Age, Normal   |
| Wage Inflation Rate:        | 2.75%   |
| Investment Rate of Return:  | 7.15%   |
| Projected Salary Increases: | 2.75 - 11.55%, including wage inflation at 2.75%  |
| Healthcare Cost Trend Rate: | 7.5% Year 1 graded to 3.0% Year 12  |
| Mortality:                  | Retirees: RP-2014 Male and Female Healthy Annuitant Mortality Tables, scaled by 82% for males and 78% for females and adjusted for mortality improvements using projection scale MP-2017 from 2006. |
|                             | Active Members: RP-2014 Male and Female Employee Annuitant Mortality Tables, scaled 100% and adjusted for mortality improvements using projection scale MP-2017 from 2006.                          |

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.  |

*Notes: Assumption changes as a result of an experience study for the period 2012 through 2017 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2017 valuation. The total OPEB liability as of September 30, 2018, is based on the results of an actuarial valuation date of September 30, 2017, 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: [5.6018 for non-university employers or 1.3472 for university employers]*

*Recognition period for assets in years is 5.0000*

*Full actuarial assumptions are available in the 2018 MPSERS Comprehensive Annual Financial Report found on the ORS website at [www.michigan.gov/orsschools](http://www.michigan.gov/orsschools).*

HILLMAN COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2019

**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, 2018, are summarized in the following table:

| Asset Class                          | Target Allocation | Long Term Expected Real Rate |
|--------------------------------------|-------------------|------------------------------|
| Domestic Equity Pools                | 28.0%             | 5.7%                         |
| % Alternative Investment Pools       | 18.0              | 9.2                          |
| International Equity                 | 16.0              | 7.2                          |
| Fixed Income Pools                   | 10.5              | 0.5                          |
| Real Estate and Infrastructure Pools | 10.0              | 3.9                          |
| Absolute Return Pools                | 15.5              | 5.2                          |
| Short Term Investment Pools          | 2.0               | 0.00                         |
| TOTAL                                | 100.0%            |                              |

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

**Rate of Return**

For the fiscal year ended September 30, 2018, the annual money-weighted rate of return on OPEB plan investment, net of OPEB plan investment expense, was 10.75%. 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 7.15% 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 7.15%. 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 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 Hillman Community School's proportionate share of the net OPEB liability to changes in the discount rate**

The following presents Hillman Community School's proportionate share of the net OPEB liability calculated using the discount rate of 7.15%, as well as what Hillman Community School'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<br>6.15% | Current Discount Rate<br>7.15% | 1% Increase<br>8.15% |
|----------------------|--------------------------------|----------------------|
| \$ 2,374,690         | \$ 1,978,117                   | \$ 1,644,552         |

HILLMAN COMMUNITY SCHOOLS  
 NOTES TO FINANCIAL STATEMENTS  
June 30, 2019

**Sensitivity of Hillman Community School's proportionate share of the net OPEB liability to Healthcare Cost Trend Rate**

The following presents Hillman Community School's proportionate share of the net OPEB liability calculated using assumed trend rates, as well as what Hillman Community School'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  | Current Healthcare Cost Trend Rate | 1% Increase  |
|--------------|------------------------------------|--------------|
| \$ 1,626,980 | \$ 1,978,117                       | \$ 2,380,944 |

**OPEB Plan Fiduciary Net Position**

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued 2018 MPSERS CAFR, available on the ORS website at [www.michigan.gov/orsschools](http://www.michigan.gov/orsschools).

**Payables to the OPEB Plan**

The District accrued liabilities to the System in the amount of \$24,442 associated with salary and wages recorded as liabilities at year end.

**Note 12. Management Review**

Management has evaluated subsequent events and transactions for potential recognition and disclosure through October 2, 2019, the date the financial statements were available to be issued. No significant events or transactions were identified.

**Note 13. Upcoming Accounting Pronouncements**

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

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



HILLMAN COMMUNITY SCHOOLS  
 BUDGET COMPARISON SCHEDULE - GENERAL FUND  
 Year Ended June 30, 2019

|   | Original<br>Budget | Final<br>Amended<br>Budget | Actual            |
|---|--------------------|----------------------------|-------------------|
| <b>REVENUES:</b>                          |                    |                            |                   |
| Local sources                             | \$ 1,870,132       | \$ 1,911,535               | \$ 1,912,524      |
| State sources                             | 2,171,868          | 2,176,119                  | 2,175,835         |
| Federal sources                           | 201,034            | 236,364                    | 232,313           |
| Interdistrict and other sources           | 147,500            | 202,527                    | 202,528           |
| <b>Total Revenues</b>                     | <b>4,390,534</b>   | <b>4,526,545</b>           | <b>4,523,200</b>  |
| <b>EXPENDITURES:</b>                      |                    |                            |                   |
| Instruction-                              |                    |                            |                   |
| Basic programs                            | 2,006,295          | 2,114,226                  | 2,098,840         |
| Added needs                               | 600,290            | 596,804                    | 588,135           |
| Supporting services -                     |                    |                            |                   |
| Pupil                                     | 56,821             | 51,715                     | 51,544            |
| Instructional staff                       | 49,286             | 56,456                     | 55,723            |
| General administration                    | 105,408            | 104,882                    | 99,055            |
| School administration                     | 459,976            | 461,321                    | 456,500           |
| Business services                         | 179,306            | 160,061                    | 156,723           |
| Operation & maintenance                   | 581,750            | 590,662                    | 566,957           |
| Transportation                            | 320,725            | 341,364                    | 328,982           |
| Support services - Central                | 144,255            | 181,676                    | 177,467           |
| Support services - Other                  | 124,647            | 103,720                    | 101,085           |
| Community services -                      |                    |                            |                   |
| Community activities                      | 2,000              | 2,000                      | 1,845             |
| <b>Total Expenditures</b>                 | <b>4,630,759</b>   | <b>4,764,887</b>           | <b>4,682,856</b>  |
| <b>OTHER FINANCING SOURCES (USES)</b>     |                    |                            |                   |
| Operating transfers out                   | (50,000)           | (55,000)                   | (53,529)          |
| State aid payback                         | -                  | -                          | -                 |
| Indirect costs recovery                   | 25,000             | 26,323                     | 26,052            |
| Indirect costs                            | -                  | -                          | -                 |
| Redemption of school bus loans            | -                  | -                          | -                 |
| Principal payments                        | (12,183)           | (11,418)                   | (11,417)          |
| Interest on school bus loans              | (1,411)            | (1,411)                    | (1,411)           |
| <b>Net other financing sources (uses)</b> | <b>(38,594)</b>    | <b>(41,506)</b>            | <b>(40,305)</b>   |
| <b>NET CHANGE IN FUND BALANCE</b>         | <b>(278,819)</b>   | <b>(279,848)</b>           | <b>(199,961)</b>  |
| <b>FUND BALANCE - BEGINNING OF YEAR</b>   | <b>631,460</b>     | <b>794,482</b>             | <b>794,482</b>    |
| <b>FUND BALANCE - END OF YEAR</b>         | <b>\$ 352,641</b>  | <b>\$ 514,634</b>          | <b>\$ 594,521</b> |

HILLMAN COMMUNITY SCHOOLS  
 BUDGET COMPARISON SCHEDULE - FOOD SERVICE FUND  
 Year Ended June 30, 2019

|                                       | Original<br>Budget | Final<br>Amended<br>Budget | Actual    |
|---------------------------------------|--------------------|----------------------------|-----------|
| REVENUES:                             |                    |                            |           |
| Local sources                         | \$ 54,540          | \$ 48,908                  | \$ 48,632 |
| State sources                         | 27,282             | 27,713                     | 27,713    |
| Federal sources                       | 202,167            | 191,010                    | 188,372   |
| Total Revenues                        | 283,989            | 267,631                    | 264,717   |
| EXPENDITURES:                         |                    |                            |           |
| Supporting services -<br>Food service | 311,980            | 300,729                    | 293,370   |
| OTHER FINANCING SOURCES (USES):       |                    |                            |           |
| Indirect costs                        | (25,000)           | (26,323)                   | (26,052)  |
| Operating transfer In                 | 50,000             | 55,000                     | 53,529    |
| Net other financing sources (uses)    | 25,000             | 28,677                     | 27,477    |
| NET CHANGE IN FUND BALANCE            | (2,991)            | (4,421)                    | (1,176)   |
| FUND BALANCE - BEGINNING OF YEAR      | 8,325              | 14,915                     | 14,915    |
| FUND BALANCE - END OF YEAR            | \$ 5,334           | \$ 10,494                  | \$ 13,739 |

HILLMAN COMMUNITY SCHOOLS  
 REQUIRED SUPPLEMENTAL INFORMATION  
 June 30, 2019

Schedule of the District's Proportionate Share of the Net Pension Liability  
 Michigan Public School Employees Retirement Plan  
 Last 10 Fiscal Years (Amounts were determined as of 9/30 of each fiscal year)

|  | 2023 | 2022 | 2021 | 2020 | 2019 | 2018      | 2017      | 2016      | 2015      | 2014      |
|--|------|------|------|------|------|-----------|-----------|-----------|-----------|-----------|
| A. District's proportion of net pension liability (%)  |      |      |      |      |      | 0.02514%  | 0.02574%  | 0.02707%  | 0.02754%  | 0.02681%  |
| B. District's proportionate share of net pension liability   |      |      |      |      |      | 7,546,592 | 6,671,222 | 6,754,919 | 6,725,776 | 5,904,367 |
| C. District's covered-employee payroll   |      |      |      |      |      | 2,119,416 | 2,108,260 | 2,271,053 | 2,298,662 | 2,282,458 |
| D. District's proportionate share of net pension liability as a percentage of its covered-employee payroll |      |      |      |      |      | 356.07%   | 316.43%   | 297.44%   | 292.60%   | 258.68%   |
| E. Plan fiduciary net position as a percentage of total pension liability                                  |      |      |      |      |      | 62.36%    | 64.21%    | 63.27%    | 63.17%    | 66.20%    |

\*The employer's covered payroll is defined by GASB 82, Pension Issues—an amendment to GASB Statements No. 67, No. 68, and No. 73, as payroll on which contributions to a pension plan are based; and by GASB 85, Omnibus 2017, as payroll on which contributions to the OPEB plan are based. For university employers, covered payroll for both pension and OPEB is the greater of 1) university payroll on which contributions to the plan are based or 2) the required minimum payroll amount required by PA 136 of 2016. For non-university employers, covered payroll for both pension and OPEB represents payroll on which contributions to both plans are based.

HILLMAN COMMUNITY SCHOOLS  
 REQUIRED SUPPLEMENTAL INFORMATION  
 June 30, 2019

Schedule of the District's Contributions  
 Michigan Public School Employees Retirement Plan  
 Last 10 Reporting Unit Fiscal Years (Amounts were determined as of 6/30 of each fiscal year)

|   | 2024 | 2023 | 2022 | 2021 | 2020 | 2019         | 2018         | 2017         | 2016         | 2015         |
|---|------|------|------|------|------|--------------|--------------|--------------|--------------|--------------|
| A. Statutorily required contributions                               | \$   | \$   | \$   | \$   | \$   | \$ 655,827   | \$ 702,493   | \$ 607,950   | \$ 614,766   | \$ 431,600   |
| B. Contributions in relation to statutorily required contributions* |      |      |      |      |      | 655,827      | 702,493      | 607,950      | 614,766      | 431,600      |
| C. Contribution deficiency (excess)                                 | \$   | \$   | \$   | \$   | \$   | \$ -         | \$ -         | \$ -         | \$ -         | \$ -         |
| D. District's covered-employee payroll**                            | \$   | \$   | \$   | \$   | \$   | \$ 2,257,426 | \$ 2,110,472 | \$ 2,123,033 | \$ 2,188,141 | \$ 2,316,044 |
| E. Contributions as a percentage of covered-employee payroll        |      |      |      |      |      | 29.05%       | 33.29%       | 28.64%       | 28.10%       | 18.64%       |

\*Contributions in relation to statutorily required pension contributions are the contributions an employer actually made to the System, as distinct from the statutorily required contributions.

**HILLMAN COMMUNITY SCHOOLS  
REQUIRED SUPPLEMENTAL INFORMATION**

**June 30, 2019**

Schedule of the District's Proportionate Share of the Net OPEB Liability  
Michigan Public School Employees Retirement Plan  
Last 10 Fiscal Years (Amounts were determined as of 9/30 of each fiscal year)

|  | 2026 | 2025 | 2024 | 2023 | 2022 | 2021 | 2020 | 2019 | 2018      | 2017      |
|--|------|------|------|------|------|------|------|------|-----------|-----------|
| A. Employer's proportion of net OPEB liability (%)   |      |      |      |      |      |      |      |      | 0.02489%  | 0.02580%  |
| B. Employer's proportionate share of net OPEB liability  |      |      |      |      |      |      |      |      | 1,978,117 | 2,284,907 |
| C. Employer's covered payroll (OPEB)*  |      |      |      |      |      |      |      |      | 2,119,416 | 2,108,260 |
| D. Employer's proportionate share of net OPEB liability as a percentage of its covered payroll (%) |      |      |      |      |      |      |      |      | 107.14%   | 92.27%    |
| E. Plan fiduciary net position as a percentage of total OPEB liability                             |      |      |      |      |      |      |      |      | 42.95%    | 36.39%    |

\*The employer's covered payroll is defined by GASB 82, Pension Issues—an amendment to GASB Statements No. 67, No. 68, and No. 73, as payroll on which contributions to a pension plan are based; and by GASB 85, Omnibus 2017, as payroll on which contributions to the OPEB plan are based. For university employers, covered payroll for both pension and OPEB is the greater of 1) university payroll on which contributions to the plan are based or 2) the required minimum payroll amount required by PA 136 of 2016. For non-university employers, covered payroll for both pension and OPEB represents payroll on which contributions to both plans are based.

HILLMAN COMMUNITY SCHOOLS  
 REQUIRED SUPPLEMENTAL INFORMATION  
 June 30, 2019

Schedule of the District's Contributions  
 Michigan Public School Employees Retirement Plan  
 Last 10 Reporting Unit Fiscal Years (Amounts were determined as of 6/30 of each fiscal year)

|   | 2027 | 2026 | 2025 | 2024 | 2023 | 2022 | 2021 | 2020 | 2019         | 2018         |
|---|------|------|------|------|------|------|------|------|--------------|--------------|
| A. Statutorily required OPEB contributions                                  |      |      |      |      |      |      |      |      | \$ 175,876   | \$ 165,649   |
| B. OPEB contributions in relation to<br>statutorily required contributions* |      |      |      |      |      |      |      |      | 175,876      | 165,649      |
| C. Contribution deficiency (excess)   |      |      |      |      |      |      |      |      | \$ -         | \$ -         |
| D. Employer's covered payroll<br>(OPEB)**                                   |      |      |      |      |      |      |      |      | \$ 2,257,426 | \$ 2,110,472 |
| E. OPEB contributions as a<br>percentage of covered payroll                 |      |      |      |      |      |      |      |      | 7.79%        | 7.85%        |

\*Contributions in relation to statutorily required OPEB contributions are the contributions an employer actually made to the OPEB Plan, as distinct from the statutorily required contributions.

HILLMAN COMMUNITY SCHOOLS  
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION  
June 30, 2019

**Changes of Benefit Terms**

There were no changes of benefit terms in fiscal year ended Sept. 30, 2018.

**Changes of Assumptions**

There were no changes of benefit assumptions in fiscal year ended Sept. 30, 2018.

HILLMAN COMMUNITY SCHOOLS  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
Years Ended June 30, 2019 and 2018

| REVENUES:                    | 2019         | 2018         |
|------------------------------|--------------|--------------|
| Local Sources -              |              |              |
| Current tax levy             | \$ 1,783,996 | \$ 1,781,933 |
| Other taxes                  | 16,713       | 8,656        |
| Revenue in lieu of taxes     | -            | 1,513        |
| Interest on delinquent taxes | 8,957        | 8,888        |
| Gate receipts                | -            | 21,103       |
| Participation fees           | 21,443       | 17,240       |
| Transportation fees          | 5,239        | 6,519        |
| Interest on investments      | 23,521       | 10,433       |
| Rentals                      | 14,173       | 9,897        |
| Royalties                    | 1,160        | 1,254        |
| Local grants and donations   | 24,858       | 13,740       |
| Other                        | 12,464       | 26,385       |
| Total Local Sources          | 1,912,524    | 1,907,561    |
| State Sources -              |              |              |
| State Foundation Grant       | 1,485,401    | 1,664,537    |
| Isolated Districts           | 21,427       | 20,664       |
| Computer Adaptive Test       | 2,914        | 2,465        |
| MPSERS 147a                  | 53,170       | 43,236       |
| MPSERS 147c                  | 263,282      | 297,868      |
| MPSERS 147e                  | 6,438        | 2,869        |
| Financial Analytic Tools     | 707          | 742          |
| Special Education            | 99,232       | 75,994       |
| At Risk - Section 31a        | 207,567      | 208,516      |
| Targeted Literacy            | 5,019        | 5,670        |
| Headlee Data Collection      | 11,028       | 11,442       |
| Dual Enrollment Incentives   | 1,900        | 2,670        |
| First Robotics               | 6,500        | 9,000        |
| High School Pupil Supports   | 2,813        | 3,327        |
| Other                        | 8,437        | 7,500        |
| Total State Sources          | 2,175,835    | 2,356,500    |
| Federal Sources -            |              |              |
| Title 1                      | 168,699      | 156,196      |
| Title II A                   | 33,059       | 25,880       |
| Title III A                  | -            | 313          |
| Title IV A                   | 14,677       | 6,250        |
| Small Rural Schools          | 14,664       | 17,633       |
| Medicaid Outreach            | 1,214        | 678          |
| Total Federal Sources        | 232,313      | 206,950      |



HILLMAN COMMUNITY SCHOOLS  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
Years Ended June 30, 2019 and 2018

| REVENUES (Continued):                    | 2019              | 2018              |
|--|-------------------|-------------------|
| Interdistrict and Other Sources          |                   |                   |
| Transfers from other governmental units: |                   |                   |
| Special Education                        | 177,487           | 143,973           |
| Medicaid Fee for Service                 | 25,041            | 25,584            |
| Total Interdistrict and Other Sources    | <u>202,528</u>    | <u>169,557</u>    |
| Total Revenues                           | 4,523,200         | 4,640,568         |
| <br>EXPENDITURES:                        |                   |                   |
| Instruction                              | 2,686,975         | 2,664,502         |
| Supporting Services                      | 1,994,036         | 1,990,333         |
| Community Services                       | 1,845             | 1,969             |
| Total Expenditures                       | <u>4,682,856</u>  | <u>4,656,804</u>  |
| <br>OTHER FINANCING SOURCES (USES):      |                   |                   |
| Operating transfers out                  | (53,529)          | (48,014)          |
| Sale of assets                           | -                 | -                 |
| Redemption of school bus loans           | -                 | 60,000            |
| State aid adjustment                     | -                 | -                 |
| Indirect cost recovery                   | 26,052            | 25,000            |
| Principal payments                       | (11,417)          |                   |
| Interest on school bus loans             | (1,411)           | -                 |
| Net Other Financing Sources (Uses)       | <u>(40,305)</u>   | <u>36,986</u>     |
| <br>NET CHANGE IN FUND BALANCE           | (199,961)         | 20,750            |
| <br>FUND BALANCE - BEGINNING OF YEAR     | <u>794,482</u>    | <u>773,732</u>    |
| <br>FUND BALANCE - END OF YEAR           | <u>\$ 594,521</u> | <u>\$ 794,482</u> |

HILLMAN COMMUNITY SCHOOLS  
GENERAL FUND  
DETAIL OF EXPENDITURES  
Year Ended June 30, 2019 With Comparative Totals at June 30, 2018

| INSTRUCTION:                     | Salaries   | Employee Benefits | Purchased Services | Supplies and Other Costs | Other Expenses | Capital Outlay | Totals     |           |
|----------------------------------|------------|-------------------|--------------------|--------------------------|----------------|----------------|------------|-----------|
|                                  |            |                   |                    |                          |                |                | 2019       | 2018      |
| Basic Programs -                 |            |                   |                    |                          |                |                |            |           |
| Elementary                       | \$ 514,980 | \$ 371,231        | \$ 23,441          | \$ 37,298                | \$ 1,078       | \$ -           | \$ 948,028 | 982,940   |
| Secondary                        | 560,846    | 414,853           | 102,225            | 65,925                   | 6,963          | -              | 1,150,812  | 1,078,800 |
| Pre School                       | -          | -                 | -                  | -                        | -              | -              | -          | -         |
| Total Basic Programs             | 1,075,826  | 786,084           | 125,666            | 103,223                  | 8,041          | -              | 2,098,840  | 2,061,740 |
| Added Needs -                    |            |                   |                    |                          |                |                |            |           |
| Special Education                | 136,702    | 104,875           | 1,637              | 897                      | -              | -              | 244,111    | 286,628   |
| Compensatory Education           | 200,767    | 134,592           | 8,665              | -                        | -              | -              | 344,024    | 316,134   |
| Total Added Needs                | 337,469    | 239,467           | 10,302             | 897                      | -              | -              | 588,135    | 602,762   |
| Total Instruction                | 1,413,295  | 1,025,551         | 135,968            | 104,120                  | 8,041          | -              | 2,686,975  | 2,664,502 |
| SUPPORTING SERVICES:             |            |                   |                    |                          |                |                |            |           |
| Pupil -                          |            |                   |                    |                          |                |                |            |           |
| Guidance Services                | -          | -                 | 51,215             | 329                      | -              | -              | 51,544     | 55,292    |
| Instructional Staff Services -   |            |                   |                    |                          |                |                |            |           |
| Improvement of Instruction       | 18,686     | 17,271            | 18,425             | 741                      | -              | -              | 55,123     | 31,590    |
| Instructional Related Technology | -          | -                 | -                  | -                        | -              | -              | -          | 2,465     |
| Academic Student Assessment      | -          | -                 | -                  | 600                      | -              | -              | 600        | 3,588     |
| Total Instructional Staff        | 18,686     | 17,271            | 18,425             | 1,341                    | -              | -              | 55,723     | 37,643    |

HILLMAN COMMUNITY SCHOOLS  
GENERAL FUND  
DETAIL OF EXPENDITURES  
Year Ended June 30, 2019 With Comparative Totals at June 30, 2018

| SUPPORTING SERVICE (CONTINUED):                               | Salaries     | Employee Benefits | Purchased Services | Supplies and Other Costs | Other Expenses | Capital Outlay | Totals       |              |
|---|--------------|-------------------|--------------------|--------------------------|----------------|----------------|--------------|--------------|
|   |              |                   |                    |                          |                |                | 2019         | 2018         |
| General Administration Services -                             |              |                   |                    |                          |                |                |              |              |
| Board of Education  | \$ 2,369     | \$ 185            | \$ 22,663          | \$ -                     | \$ 3,227       | \$ -           | \$ 28,444    | \$ 32,838    |
| Executive Administration                                      | 38,166       | 22,190            | 4,826              | -                        | 5,429          | -              | 70,611       | 71,289       |
| Total General Administrative Services                         | 40,535       | 22,375            | 27,489             | -                        | 8,656          | -              | 99,055       | 104,127      |
| School Administrative Services -                              |              |                   |                    |                          |                |                |              |              |
| Office of the Principal                                       | 263,050      | 191,504           | 1,044              | 902                      | -              | -              | 456,500      | 456,444      |
| Business Services -   |              |                   |                    |                          |                |                |              |              |
| Fiscal Services   | 74,973       | 52,634            | 530                | 1,323                    | 778            | -              | 130,238      | 126,873      |
| Other Business Services                                       | -            | -                 | 22,918             | 3,567                    | -              | -              | 26,485       | 49,491       |
| Total Business Services                                       | 74,973       | 52,634            | 23,448             | 4,890                    | 778            | -              | 156,723      | 176,364      |
| Operations and Maintenance -                                  |              |                   |                    |                          |                |                |              |              |
| Operations of Buildings Services                              | 157,716      | 114,247           | 96,884             | 166,409                  | 240            | 20,215         | 555,711      | 572,182      |
| Security Services   | -            | -                 | 817                | -                        | -              | 10,429         | 11,246       | 1,815        |
| Total Operations and Maintenance                              | 157,716      | 114,247           | 97,701             | 166,409                  | 240            | 30,644         | 566,957      | 573,997      |
| Pupil Transportation Services -                               |              |                   |                    |                          |                |                |              |              |
| Pupil Transportation Services                                 | 152,426      | 69,143            | 43,984             | 57,065                   | 2,226          | 4,138          | 328,982      | 380,163      |
| Support Services - Central -                                  |              |                   |                    |                          |                |                |              |              |
| Planning, Research, Development, and Staff/Personnel Services | 14,219       | 8,770             | -                  | -                        | -              | -              | 22,989       | -            |
| Non Instructional Technology                                  | -            | -                 | -                  | -                        | -              | -              | -            | 24,799       |
| Non Instructional Technology                                  | 29,446       | 27,304            | 71,065             | 25,474                   | -              | 1,189          | 154,478      | 82,071       |
| Total Support Services - Central                              | 43,665       | 36,074            | 71,065             | 25,474                   | -              | 1,189          | 177,467      | 106,870      |
| Support Services - Other -                                    |              |                   |                    |                          |                |                |              |              |
| Athletics   | 21,061       | 9,054             | 56,865             | 11,410                   | 2,695          | -              | 101,085      | 99,433       |
| Total Supporting Services                                     | -            | -                 | -                  | -                        | 14,595         | 35,971         | 1,994,036    | 1,990,333    |
| COMMUNITY SERVICES:   |              |                   |                    |                          |                |                |              |              |
| Community Activities  | -            | -                 | -                  | 1,845                    | -              | -              | 1,845        | 1,969        |
| Total Expenditures  | \$ 1,413,295 | \$ 1,025,551      | \$ 135,968         | \$ 105,965               | \$ 22,636      | \$ 35,971      | \$ 4,682,856 | \$ 4,656,804 |

HILLMAN COMMUNITY SCHOOLS  
FOOD SERVICE FUND  
SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
Years Ended June 30, 2019 and 2018

| REVENUES:                            | 2019      | 2018      |
|--------------------------------------|-----------|-----------|
| Local sources -                      |           |           |
| Cafeteria sales                      | \$ 41,790 | \$ 48,622 |
| Milk machine                         | -         | 2,962     |
| Earnings on investments              | 37        | 43        |
| Headstart sales                      | -         | -         |
| GSRP lunches                         | -         | -         |
| Other                                | 6,805     | 7,702     |
| Total local sources                  | 48,632    | 59,329    |
| State sources -                      |           |           |
| MPERS 147c                           | 11,754    | 15,221    |
| Section 31a At Risk                  | 2,510     | 2,270     |
| Section 31d School Lunch             | 13,449    | 11,137    |
| Total state sources                  | 27,713    | 28,628    |
| Federal sources -                    |           |           |
| National School Lunch Program        | 124,614   | 125,067   |
| National School Breakfast Program    | 48,153    | 53,515    |
| Donated commodities - Entitlement    | 15,605    | 16,758    |
| Total federal sources                | 188,372   | 195,340   |
| Total revenues                       | 264,717   | 283,297   |
| EXPENDITURES:                        |           |           |
| Supporting services -                |           |           |
| Food service -                       |           |           |
| Salaries and wages                   | 97,392    | 98,682    |
| Employee benefits                    | 69,567    | 71,663    |
| Purchased services                   | 4,650     | 5,997     |
| Food and milk                        | 104,908   | 114,586   |
| USDA Delivery charge                 | 15,926    | 16,758    |
| Sales tax                            | 269       | 234       |
| Supplies and other costs             | 658       | 784       |
| Total expenditures                   | 293,370   | 308,704   |
| OTHER FINANCING SOURCES (Uses):      |           |           |
| Operating transfers in               | 53,529    | 48,014    |
| Indirect costs                       | (26,052)  | (25,000)  |
| Total other financing sources (uses) | 27,477    | 23,014    |
| NET CHANGE IN FUND BALANCES          | (1,176)   | (2,393)   |
| FUND BALANCE - BEGINNING OF YEAR     | 14,915    | 17,308    |
| FUND BALANCE - END OF YEAR           | \$ 13,739 | \$ 14,915 |

HILLMAN COMMUNITY SCHOOLS  
2015 REFUNDING BOND FUND  
SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
Years Ended June 30, 2019 and 2018

| REVENUES:                        | 2019             | 2018             |
|----------------------------------|------------------|------------------|
| Local sources -                  |                  |                  |
| Current tax levy                 | \$ 542,020       | \$ 534,563       |
| Other taxes                      | -                | -                |
| Interest on delinquent taxes     | 3,203            | 2,911            |
| Earnings on investments          | 6,360            | 2,465            |
|                                  | <u>551,583</u>   | <u>539,939</u>   |
| Total local sources              | 551,583          | 539,939          |
| State sources -                  |                  |                  |
| Debt loss on personals           | 3,004            | 1,520            |
| Payment in lieu of taxes         | 16,238           | 15,562           |
|                                  | <u>19,242</u>    | <u>17,082</u>    |
| Total revenues                   | 570,825          | 557,021          |
| EXPENDITURES:                    |                  |                  |
| Debt service -                   |                  |                  |
| Bond principal                   | 490,000          | 485,000          |
| Interest on bonded debt          | 53,525           | 63,225           |
| Paying agent fees                | 500              | 500              |
| Taxes paid back                  | 196              | 4,505            |
|                                  | <u>544,221</u>   | <u>553,230</u>   |
| Total expenditures               | 544,221          | 553,230          |
| NET CHANGE IN FUND BALANCES      | 26,604           | 3,791            |
| FUND BALANCE - BEGINNING OF YEAR | <u>64,817</u>    | <u>61,026</u>    |
| FUND BALANCE - END OF YEAR       | <u>\$ 91,421</u> | <u>\$ 64,817</u> |

HILLMAN COMMUNITY SCHOOLS  
 FIDUCIARY FUND  
 SCHEDULE OF DUE TO SCHOOL ORGANIZATIONS  
 Years Ended June 30, 2019 and 2018

|                         | 2019         | 2018         |
|-------------------------|--------------|--------------|
| <b>ELEMENTARY -</b>     |              |              |
| Dance Funds             | \$ 22        | \$ 158       |
| Fines                   | -            | 177          |
| Food Bank               | 237          | -            |
| General Purpose         | 473          | 1,833        |
| Library                 | -            | 641          |
| Math & Science          | 118          | 100          |
| Physical Education      | -            | 116          |
| School Spirit Store     | 630          | 1,162        |
| School Success          | 317          | -            |
| Student Improvement     | 145          | 610          |
| Super U Grant           | 1,180        | -            |
|                         | <u>3,122</u> | <u>4,797</u> |
| <b>Total Elementary</b> |              |              |
| <b>HIGH SCHOOL -</b>    |              |              |
| Athletics               | 1,193        | 1,733        |
| Class of 2018           | -            | 784          |
| Class of 2019           | 1,183        | 4,819        |
| Class of 2020           | 2,645        | 8,833        |
| Class of 2021           | 7,819        | 5,985        |
| Class of 2022           | 4,818        | 1,877        |
| Class of 2024           | 6,022        | 968          |
| Class of 2025           | 170          | -            |
| Band                    | 5,001        | 98           |
| Baseball                | 3,935        | 2,509        |
| Basketball JH           | 26           | 26           |
| Basketball - Girls      | 1,608        | 1,424        |
| Basketball - Boys       | 2,036        | 2,645        |
| Broadcasting            | 169          | 732          |
| Cheerleading            | 471          | 316          |
| Drama                   | -            | 196          |
| International travel    | 1,215        | (9)          |
| Fines & Supplies        | 46           | 442          |
| Football                | 1,276        | 2,631        |

HILLMAN COMMUNITY SCHOOLS  
 FIDUCIARY FUND  
 SCHEDULE OF DUE TO SCHOOL ORGANIZATIONS  
 Years Ended June 30, 2019 and 2018

|                           | <u>2019</u>      | <u>2018</u>      |
|---------------------------|------------------|------------------|
| HIGH SCHOOL (Continued) - |                  |                  |
| Hall of Fame              | -                | 809              |
| Honor Society             | 181              | 379              |
| Library                   | -                | 128              |
| Physics                   | -                | 311              |
| Rentals                   | -                | 864              |
| Revolving Account         | -                | 636              |
| Robotics                  | 9,214            | 1,769            |
| Scholarship               | -                | 1,000            |
| Scholarship               | 6,500            | 6,500            |
| School Success            | 110              | -                |
| Shop                      | 2,821            | 6,282            |
| Softball                  | 1,613            | 1,952            |
| Spanish                   | 36               | 36               |
| Special Ed                | -                | -                |
| Student Council           | 1,651            | 1,460            |
| Student Improvement       | 24               | 993              |
| Track                     | 714              | 19               |
| Track - Junior High       | 5                | 5                |
| Volleyball                | 3,005            | 1,326            |
| Volleyball - Junior High  | 20               | 20               |
| Yearbook                  | 9,261            | 9,282            |
|                           | <u>74,788</u>    | <u>69,780</u>    |
| Total High School         | <u>\$ 77,910</u> | <u>\$ 74,577</u> |

HILLMAN COMMUNITY SCHOOLS  
 DETAIL OF 2015 REFUNDING BOND  
 June 30, 2019

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Purpose of issue -  
 2015 Refunding Bonds  
 Amount of issue: \$ 3,955,000  
 Interest rate - 2.000%  
 Date of issue - February 10, 2015

| Date | May, 1              |                  | November, 1      |                     |
|------|---------------------|------------------|------------------|---------------------|
|      | Principal           | Interest         | Interest         | Total               |
| 2019 | \$ -                | \$ -             | \$ 21,863        | \$ 21,863           |
| 2020 | 500,000             | 21,863           | 16,863           | 538,725             |
| 2021 | 510,000             | 16,863           | 11,763           | 538,625             |
| 2022 | 520,000             | 11,763           | 6,563            | 538,325             |
| 2023 | 525,000             | 6,563            | -                | 531,563             |
|      | <u>\$ 2,055,000</u> | <u>\$ 57,050</u> | <u>\$ 57,050</u> | <u>\$ 2,169,100</u> |



HILLMAN COMMUNITY SCHOOLS

DETAIL OF BUS NOTE PAYABLE

June 30, 2019

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Purpose of issue -

Bus purchases

Amount of issue: \$ 60,000

Interest rate - 2.490%

Date of issue - September 8, 2017

| Date | September 8,     |                 |
|------|------------------|-----------------|
|      | Principal        | Interest        |
| 2019 | 11,701           | 1,210           |
| 2020 | 11,993           | 918             |
| 2021 | 12,291           | 620             |
| 2022 | 12,598           | 313             |
|      | <u>\$ 48,583</u> | <u>\$ 3,061</u> |



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**CERTIFIED PUBLIC ACCOUNTANTS**

*Partners:*  
Timothy J. Quast, C.P.A.  
David G. Gwizdala, C.P.A.

*Members:*  
American Institute of C.P.A.'s  
Michigan Association of C.P.A.'s

**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**

To The Board of Education  
Hillman Community Schools

Ladies and Gentlemen:

We have audited, in accordance with auditing standards general 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 government activities, each major fund, and the aggregate remaining fund information of the Hillman Community Schools, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Hillman Community Schools' basic financial statements, and have issued our report thereon dated October 2, 2019.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we 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 Hillman Community Schools' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Hillman Community Schools' 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.

Sincerely,

QUAST, JANKE AND COMPANY



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Certified Public Accountants, P.C  
Bay City, Michigan 48708  
October 2, 2019