

Harper Creek  
Community  
Schools



Year Ended  
June 30, 2020

Financial  
Statements and  
Single Audit Act  
Compliance

**Rehmann**

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# HARPER CREEK COMMUNITY SCHOOLS

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# HARPER CREEK COMMUNITY SCHOOLS

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## INDEPENDENT AUDITORS' REPORT

October 8, 2020

Board of Education  
Harper Creek Community Schools  
Battle Creek, Michigan

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of *Harper Creek Community Schools* (the "District"), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

### *Independent Auditors' Responsibility*

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

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

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

### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Harper Creek Community Schools as of June 30, 2020, and the respective changes in financial position thereof and the budgetary comparison of the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### *Implementation of GASB Statement No. 84*

As described in Note 14, the District implemented the provisions of GASB Statement No. 84, *Fiduciary Activities*, in the current year. Accordingly, beginning net position of governmental activities and beginning fund balance of the student/school activity nonmajor special revenue fund were restated. Our opinion is not modified with respect to this matter.

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules for the pension and other postemployment benefit plans, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2020, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

# HARPER CREEK COMMUNITY SCHOOLS

## Management's Discussion and Analysis

As management of Harper Creek Community Schools, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year that ended June 30, 2020.

### Financial Highlights

· Total net position	\$(50,130,859)
· Change in total net position	(3,211,774)
· Fund balances, governmental funds	5,422,779
· Change in fund balances, governmental funds	17,445
· Unassigned fund balance, general fund	3,649,498
· Change in fund balance, general fund	664,049
· Installment debt outstanding	51,851,400
· Change in installment debt	8,918,080

### Overview of the Financial Statements

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

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

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

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

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the district include instruction, supporting services, athletics, community services and activities, and food service. The District has no business-type activities as of and for the year ending June 30, 2020.

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

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

# HARPER CREEK COMMUNITY SCHOOLS

## Management's Discussion and Analysis

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

The District maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, 2019 debt service fund, and 2015B debt service fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

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

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

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

### Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, liabilities and deferred inflows exceeded assets and deferred outflows by \$50,130,859 at the close of the most recent fiscal year.

## HARPER CREEK COMMUNITY SCHOOLS

### Management's Discussion and Analysis

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

		District's Net Position	
		Governmental Activities	
		2020	2019
<b>Assets</b>			
Current and other assets		\$ 8,189,226	\$ 7,912,692
Capital assets, net		55,868,379	57,238,602
<b>Total assets</b>		<u>64,057,605</u>	<u>65,151,294</u>
<b>Deferred outflows of resources</b>		<u>22,020,485</u>	<u>20,803,710</u>
<b>Liabilities</b>			
Other liabilities		69,741,693	64,702,252
Long-term debt		59,842,947	61,945,142
<b>Total liabilities</b>		<u>129,584,640</u>	<u>126,647,394</u>
<b>Deferred inflows of resources</b>		<u>6,624,309</u>	<u>6,621,070</u>
<b>Net position:</b>			
Net investment in capital assets		22,196,283	20,628,891
Restricted		620,213	562,376
Unrestricted (deficit)		(72,947,355)	(68,504,727)
<b>Total net position</b>		<u>\$(50,130,859)</u>	<u>\$ (47,313,460)</u>

## HARPER CREEK COMMUNITY SCHOOLS

### Management's Discussion and Analysis

The government's net position showed a decrease of \$3,211,774 during the current fiscal year.

	Statement of Activities	
	Governmental Activities	
	2020	2019
Program revenues:		
Charges for services	\$ 493,947	\$ 565,900
Operating grants and contributions	7,532,863	6,743,401
General revenues:		
Property taxes	7,114,917	6,983,195
Unrestricted state aid	18,139,958	18,216,842
Grants and contributions	3,209,922	2,594,972
Unrestricted investment earnings	30,286	25,196
<b>Total revenues</b>	<b>36,521,893</b>	<b>35,129,506</b>
Expenses:		
Instruction	22,313,302	20,185,166
Supporting services	11,208,825	10,110,963
Athletics	730,257	690,121
Community services and activities	225,339	335,425
Food service	1,456,562	1,154,229
Interest on long-term debt	1,987,861	1,950,806
Unallocated depreciation	1,811,521	1,782,701
<b>Total expenses</b>	<b>39,733,667</b>	<b>36,209,411</b>
<b>Change in net position</b>	<b>(3,211,774)</b>	<b>(1,079,905)</b>
Net position, beginning of year	(47,313,460)	(46,233,555)
Restatement for implementation of GASB 84	394,375	-
<b>Net position, end of year</b>	<b>\$(50,130,859)</b>	<b>\$(47,313,460)</b>

#### Governmental Activities

The District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, in fiscal year 2015 and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, in fiscal year 2018. In addition to expanded disclosure requirements, the District is required to report its proportionate share of the MPSERS net pension liability and net other postemployment benefits liability on the statement of net position. This change has resulted in a negative total net position of governmental activities of \$50,130,859. Of this amount, \$(72,947,355) is unrestricted net position (deficit) and \$620,213 represents resources that are subject to external restrictions on how they may be used. Net investment in capital assets totaling \$22,196,283 compares the original cost, net of accumulated depreciation, of the District's capital assets less any long-term debt used to finance the acquisition or construction of those assets. The operating results of the general fund will have a significant impact on the change in unrestricted net position from year to year.

#### Financial Analysis of the Government's Funds

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

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

## HARPER CREEK COMMUNITY SCHOOLS

### Management's Discussion and Analysis

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$5,422,779, an increase of \$17,445 in comparison with the prior year. Approximately 67% of this total amount, or \$3,649,498, constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of the combined fund balance has been labeled as nonspendable (inventory and/or prepaid), committed for capital projects or student/school activities or restricted for food service operations or debt service.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the general fund was \$3,649,498 while total fund balance was \$3,718,551. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance and total fund balance each represent approximately 12% of total expenditures.

The fund balance of the District's general fund increased by \$664,049. A comparison of the total 2018/2019 and 2019/2020 revenue and expenditure categories follows:

	2020	2019	Change from prior year	
			in dollars	as a percent
<b>Revenues</b>				
Local sources	\$ 7,370,015	\$ 6,660,261	\$ 709,754	10.7%
State sources	22,764,353	22,317,244	447,109	2.0%
Federal sources	363,842	392,319	(28,477)	-7.3%
<b>Total revenues</b>	<b>30,498,210</b>	<b>29,369,824</b>	<b>1,128,386</b>	<b>3.8%</b>
<b>Other financing sources</b>				
Issuance of long-term debt	-	159,600	(159,600)	100.0%
Transfers in	14,240	12,946	1,294	10.0%
<b>Total revenues and other financing sources</b>	<b>\$30,512,450</b>	<b>\$ 29,542,370</b>	<b>\$ 970,080</b>	<b>3.3%</b>
<b>Expenditures</b>				
Instruction	\$19,484,216	\$ 18,858,341	\$ 625,875	3.3%
Supporting services	9,458,675	9,469,790	(11,115)	-0.1%
Athletics	670,913	661,571	9,342	1.4%
Community services and activities	200,838	328,589	(127,751)	-38.9%
Debt service	33,759	31,564	2,195	7.0%
Capital outlay	-	159,600	(159,600)	100.0%
<b>Total expenditures</b>	<b>\$29,848,401</b>	<b>\$ 29,509,455</b>	<b>\$ 338,946</b>	<b>1.1%</b>

Revenue and other financing sources have increased by 3.3% over 2018/2019 revenue figures and expenditures have increased by 1.1% from 2018/2019 expenditure amounts. The increase in revenue and other financing sources is a result of an increase in the per pupil amount from the state and an increase in the federal grants the District received. Expenditures increased based on contract pay increases. Additionally, the District purchased vacant property in 2018/2019 and entered into a new capital lease for copiers in 2018/2019 creating the decreases in capital outlay and community services and activities in the current year.

#### General Fund Budgetary Highlights

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

## HARPER CREEK COMMUNITY SCHOOLS

### Management's Discussion and Analysis

The change between the original and final amended budget for revenues was an increase of \$1,368,071. Local revenue changed by \$835,005 largely based on increases to the final taxable property values. State sources increased by \$468,137, a combination of the District's anticipated state aid adjustments including an increase in the UAAL payments and reduction for the proposed COVID-19 related foundation allowance reduction. Federal sources increased by \$64,929 to match the District's final allocation awards.

The change between the original and final amended budget for expenditures was an increase of \$1,935,372 over the original budget. The original budget for instruction and supporting services increased by \$1,529,380 and \$211,911, respectively, due to additional retirement costs under the UAAL liability.

Additionally, the original budget for community services and activities increased by \$200,838 as a result of increased costs related to the operations of the District's before and after school child care program and the swim club program.

Overall, the actual general fund revenues were \$1,581,138 greater than the final amended budget, and the actual general fund expenditures were \$61,719 greater than the final amended budget. The budget to actual revenue variance was caused by the Board of Education's decision to adopt the final amended budget with a the projected foundation allowance reduction which was larger than the actual reduction. The final 19/20 budget had to be adopted before the final state aid reductions were approved.

#### Capital Asset and Debt Administration

**Capital Assets.** The District's investment in capital assets for its governmental activities as of June 30, 2020, amounted to \$55,868,379 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, vehicles, and furniture and equipment.

District's Capital Assets (Net of Depreciation)		
	2020	2019
Land	\$ 812,508	\$ 812,508
Construction in progress	114,968	-
Buildings and improvements	53,412,289	54,948,498
Vehicles	1,005,893	870,576
Furniture and equipment	522,721	607,020
<b>Total capital assets, net</b>	<b>\$ 55,868,379</b>	<b>\$ 57,238,602</b>

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

**Long-Term Debt.** At the end of the current fiscal year, the District had total long-term debt outstanding of \$59,842,947. Long-term debt at fiscal year-end included the following:

	2020	2019
Bonds payable	\$ 51,745,000	\$ 42,795,000
Capital leases payable	106,400	138,320
Bond premium	3,091,740	3,508,118
School bond loan fund	4,812,792	15,426,197
Compensated absences	87,015	77,507
<b>Total long-term debt</b>	<b>\$ 59,842,947</b>	<b>\$ 61,945,142</b>

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

## HARPER CREEK COMMUNITY SCHOOLS

### Management's Discussion and Analysis

#### Outlook for the Future

With a focus on the continued effect of COVID-19 on the budget, the adopted 2020/2021 budget was built on a conservative student count along with a projected decrease in the foundation allowance. The District also reduced the projected revenue from the Local Revenue Sharing Board.

Subsequent to year end, additional funding has been provided by the State of Michigan through various restricted federal grant programs. Despite this, there continues to be a high degree of uncertainty regarding potential changes to state and federal funding. In addition, the District is continuously evaluating the impacts of the pandemic as it determines the appropriate methods to deliver education to students in a safe environment. These factors will have a significant impact on the operational and financial performance of the District.

#### Requests for Information

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

## BASIC FINANCIAL STATEMENTS

# HARPER CREEK COMMUNITY SCHOOLS

## Statement of Net Position

June 30, 2020

	Governmental Activities
<b>Assets</b>	
Cash and cash equivalents	\$ 3,602,452
Due from other governments	4,502,734
Inventory and prepaids	84,040
Capital assets not being depreciated	927,476
Capital assets being depreciated, net	54,940,903
<b>Total assets</b>	<b>64,057,605</b>
<b>Deferred outflows of resources</b>	
Deferred charge on refunding	1,026,044
Deferred pension amounts	16,841,936
Deferred other postemployment benefit amounts	4,152,505
<b>Total deferred outflows of resources</b>	<b>22,020,485</b>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	2,923,031
Unearned revenue	154,508
Long-term debt:	
Due within one year	7,497,649
Due in more than one year	52,345,298
Net pension liability (due in more than one year)	54,727,910
Net other postemployment benefit liability (due in more than one year)	11,936,244
<b>Total liabilities</b>	<b>129,584,640</b>
<b>Deferred inflows of resources</b>	
Deferred pension amounts	2,022,369
Deferred other postemployment benefit amounts	4,601,940
<b>Total deferred inflows of resources</b>	<b>6,624,309</b>
<b>Net position</b>	
Net investment in capital assets	22,196,283
Restricted for food service operations	620,213
Unrestricted (deficit)	(72,947,355)
<b>Total net position</b>	<b>\$ (50,130,859)</b>

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

# HARPER CREEK COMMUNITY SCHOOLS

## Statement of Activities

For the Year Ended June 30, 2020

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
<b>Governmental activities</b>				
Instruction	\$ 22,313,302	\$ 2,025	\$ 6,295,401	\$ (16,015,876)
Supporting services	11,208,825	-	79,411	(11,129,414)
Athletics	730,257	128,706	-	(601,551)
Community services and activities	225,339	-	-	(225,339)
Food service	1,456,562	363,216	1,158,051	64,705
Interest on long-term debt	1,987,861	-	-	(1,987,861)
Unallocated depreciation	1,811,521	-	-	(1,811,521)
<b>Total</b>	<b>\$ 39,733,667</b>	<b>\$ 493,947</b>	<b>\$ 7,532,863</b>	<b>(31,706,857)</b>
<b>General revenues</b>				
Property taxes:				
Operations				3,221,512
Debt service				3,893,405
Unrestricted state aid				18,139,958
Grants and contributions not restricted to specific programs				3,209,922
Unrestricted investment earnings				30,286
<b>Total general revenues</b>				<b>28,495,083</b>
<b>Change in net position</b>				<b>(3,211,774)</b>
<b>Net position, beginning of year, as restated</b>				<b>(46,919,085)</b>
<b>Net position, end of year</b>				<b>\$ (50,130,859)</b>

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

# HARPER CREEK COMMUNITY SCHOOLS

## Balance Sheet

Governmental Funds

June 30, 2020

	General	2019 Debt Service	2015B Debt Service
<b>Assets</b>			
Cash and cash equivalents	\$ 2,032,980	\$ 2,218	\$ 99,733
Due from other governments	4,381,704	-	-
Due from other funds	-	-	-
Inventory	64,045	-	-
Prepays	5,008	-	-
<b>Total assets</b>	<b>\$ 6,483,737</b>	<b>\$ 2,218</b>	<b>\$ 99,733</b>
<b>Liabilities</b>			
Accounts payable	\$ 540,101	\$ -	\$ -
Salaries and related expenditures payable	2,067,877	-	-
Due to other funds	2,700	-	-
Unearned revenue	154,508	-	-
<b>Total liabilities</b>	<b>2,765,186</b>	<b>-</b>	<b>-</b>
<b>Fund balances</b>			
Nonspendable for inventory and prepaids	69,053	-	-
Restricted for:			
Food service operations	-	-	-
Debt service	-	2,218	99,733
Committed for:			
Capital projects	-	-	-
Student/school activities	-	-	-
Unassigned	3,649,498	-	-
<b>Total fund balances</b>	<b>3,718,551</b>	<b>2,218</b>	<b>99,733</b>
<b>Total liabilities and fund balances</b>	<b>\$ 6,483,737</b>	<b>\$ 2,218</b>	<b>\$ 99,733</b>

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



Nonmajor Governmental Funds	Totals
\$ 1,467,521	\$ 3,602,452
121,030	4,502,734
2,700	2,700
14,987	79,032
-	5,008
<u>\$ 1,606,238</u>	<u>\$ 8,191,926</u>
\$ 594	\$ 540,695
3,367	2,071,244
-	2,700
-	154,508
<u>3,961</u>	<u>2,769,147</u>
14,987	84,040
605,226	605,226
104,896	206,847
522,167	522,167
355,001	355,001
-	3,649,498
<u>1,602,277</u>	<u>5,422,779</u>
<u>\$ 1,606,238</u>	<u>\$ 8,191,926</u>

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## HARPER CREEK COMMUNITY SCHOOLS

### Reconciliation

Fund Balances of Governmental Funds  
to Net Position of Governmental Activities  
June 30, 2020

Fund balances - total governmental funds	\$ 5,422,779
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Amounts reported for *governmental activities* in the statement of net position are different because:

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

Capital assets not being depreciated	927,476
Capital assets being depreciated, net	54,940,903

Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

General obligation bonds payable	(51,745,000)
Capital leases payable	(106,400)
Unamortized bond premiums, net	(3,091,740)
School bond loan funds payable	(4,812,792)
Compensated absences	(87,015)
Unamortized deferred charge on bond refunding	1,026,044
Accrued interest on bonds payable	(311,092)

Certain pension and other postemployment benefit-related amounts, such as the net pension and other postemployment benefit liabilities and related deferred amounts are not due and payable in the current period or do not represent current financial resources and therefore are not reported in the funds.

Net pension liability	(54,727,910)
Deferred outflows related to the net pension liability	16,841,936
Deferred inflows related to the net pension liability	(2,022,369)
Net other postemployment benefit liability	(11,936,244)
Deferred outflows related to the net other postemployment benefit liability	4,152,505
Deferred inflows related to the net other postemployment benefit liability	(4,601,940)

Net position of governmental activities	<u>\$ (50,130,859)</u>
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The accompanying notes are an integral part of these financial statements.

# HARPER CREEK COMMUNITY SCHOOLS

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

Governmental Funds

For the Year Ended June 30, 2020

	General	2019 Debt Service	2015B Debt Service
<b>Revenues</b>			
Local sources	\$ 7,370,015	\$ 26	\$ 1,828,698
State sources	22,764,353	-	17,813
Federal sources	363,842	-	-
<b>Total revenues</b>	<b>30,498,210</b>	<b>26</b>	<b>1,846,511</b>
<b>Expenditures</b>			
Current:			
Instruction	19,484,216	-	-
Supporting services	9,458,675	-	-
Athletics	670,913	-	-
Community services and activities	200,838	-	-
Food service	-	-	-
Debt service:			
Principal	31,920	14,818,133	4,235,000
Interest	1,839	969,531	223,626
Bond issuance costs	-	170,000	-
Other	-	-	2,383
Capital outlay	-	-	-
<b>Total expenditures</b>	<b>29,848,401</b>	<b>15,957,664</b>	<b>4,461,009</b>
<b>Revenues over (under) expenditures</b>	<b>649,809</b>	<b>(15,957,638)</b>	<b>(2,614,498)</b>
<b>Other financing sources (uses)</b>			
Issuance of long-term debt	-	15,959,856	2,608,419
Transfers in	14,240	-	-
Transfers out	-	-	-
<b>Total other financing sources</b>	<b>14,240</b>	<b>15,959,856</b>	<b>2,608,419</b>
<b>Net change in fund balances</b>	<b>664,049</b>	<b>2,218</b>	<b>(6,079)</b>
Fund balances, beginning of year, as restated	3,054,502	-	105,812
<b>Fund balances, end of year</b>	<b>\$ 3,718,551</b>	<b>\$ 2,218</b>	<b>\$ 99,733</b>

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



Nonmajor Governmental Funds	Totals
\$ 2,999,048	\$ 12,197,787
73,115	22,855,281
1,104,983	1,468,825
<u>4,177,146</u>	<u>36,521,893</u>
-	19,484,216
613,799	10,072,474
-	670,913
-	200,838
1,446,925	1,446,925
2,605,000	21,690,053
1,463,561	2,658,557
-	170,000
3,950	6,333
673,339	673,339
<u>6,806,574</u>	<u>57,073,648</u>
<u>(2,629,428)</u>	<u>(20,551,755)</u>
2,000,925	20,569,200
-	14,240
<u>(14,240)</u>	<u>(14,240)</u>
<u>1,986,685</u>	<u>20,569,200</u>
(642,743)	17,445
2,245,020	5,405,334
<u>\$ 1,602,277</u>	<u>\$ 5,422,779</u>

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## HARPER CREEK COMMUNITY SCHOOLS

### Reconciliation

Net Changes in Fund Balances of Governmental Funds  
to Change in Net Position of Governmental Activities  
For the Year Ended June 30, 2020

Net change in fund balances - total governmental funds	\$ 17,445
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Amounts reported for *governmental activities* in the statement of activities are different because:

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

Purchase/acquisition of capital assets	441,298
Depreciation expense	(1,811,521)

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

Issuance of long-term debt	(20,569,200)
Principal payments on long-term debt	21,690,053
Amortization of bond premium	416,378
Amortization of deferred charge on refunding	(115,683)

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

Change in accrued interest payable on bonds	544,495
Change in accrual for compensated absences	(9,508)
Change in the net pension liability and related deferred amounts	(4,546,663)
Change in the net other postemployment benefit liability and related deferred amounts	731,132

Change in net position of governmental activities	<u>\$ (3,211,774)</u>
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The accompanying notes are an integral part of these financial statements.

# HARPER CREEK COMMUNITY SCHOOLS

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

Budget and Actual - General Fund  
For the Year Ended June 30, 2020

	Original Budget	Final Budget	Actual	Actual Over (under) Final Budget
<b>Revenues</b>				
Local sources:				
Current tax levy	\$ 3,250,715	\$ 3,221,512	\$ 3,221,512	\$ -
Interest on delinquent taxes	5,000	10,831	10,831	-
Tuition and transportation fees	-	2,025	2,025	-
Interest on investments	-	9,502	10,064	562
Other local revenue	3,176,104	4,022,954	4,125,583	102,629
Total local sources	6,431,819	7,266,824	7,370,015	103,191
State sources:				
Grants - unrestricted state aid	18,567,495	16,694,144	18,139,958	1,445,814
Grants - restricted:				
At Risk	923,610	958,868	958,214	(654)
Special education	925,043	999,621	999,621	-
Other	416,335	2,647,987	2,666,560	18,573
Total state sources	20,832,483	21,300,620	22,764,353	1,463,733
Federal sources:				
Title I	284,699	274,376	292,019	17,643
Title II	-	41,051	42,572	1,521
Title III	-	902	902	-
Title IV	-	33,299	28,349	(4,950)
Total federal sources	284,699	349,628	363,842	14,214
<b>Total revenues</b>	27,549,001	28,917,072	30,498,210	1,581,138
<b>Expenditures</b>				
Current:				
Instruction:				
Basic programs:				
Elementary	5,935,305	6,608,581	6,608,751	170
Middle School	4,332,131	4,773,629	4,772,611	(1,018)
High School	4,441,090	4,722,048	4,726,962	4,914
Total basic programs	14,708,526	16,104,258	16,108,324	4,066
Added needs:				
At Risk	883,544	881,082	881,809	727
Special education	2,197,500	2,344,597	2,336,622	(7,975)
Title I	145,274	134,287	157,461	23,174
Total added needs	3,226,318	3,359,966	3,375,892	15,926
Total instruction	17,934,844	19,464,224	19,484,216	19,992

continued...

# HARPER CREEK COMMUNITY SCHOOLS

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

Budget and Actual - General Fund  
For the Year Ended June 30, 2020

	Original Budget	Final Budget	Actual	Actual Over (under) Final Budget
<b>Expenditures (continued)</b>				
Current (continued):				
Supporting services:				
Pupil:				
Guidance	\$ 1,078,573	\$ 1,029,484	\$ 1,029,729	\$ 245
Other	135,775	137,178	137,452	274
Total pupil	1,214,348	1,166,662	1,167,181	519
Instructional staff:				
Staff development	369,968	454,730	459,668	4,938
Library	198,357	194,061	194,417	356
Technology	-	8,718	-	(8,718)
Total instructional staff	568,325	657,509	654,085	(3,424)
Administration:				
Board of Education	155,155	158,255	140,849	(17,406)
Central administration	562,009	578,387	582,523	4,136
School administration	1,473,399	1,557,791	1,558,233	442
Total administration	2,190,563	2,294,433	2,281,605	(12,828)
Business:				
Fiscal services	335,067	348,011	347,066	(945)
Other business services	64,900	79,538	78,587	(951)
Total business	399,967	427,549	425,653	(1,896)
Operations and maintenance	2,705,694	2,482,036	2,497,784	15,748
Security services	120,000	353,739	372,029	18,290
Transportation	1,292,684	1,313,491	1,317,118	3,627
Other services	712,251	720,324	743,220	22,896
Total supporting services	9,203,832	9,415,743	9,458,675	42,932
Athletics	678,875	672,118	670,913	(1,205)
Community services and activities:				
Community services direction	-	23,694	23,723	29
Community services activities	-	391	391	-
Custody and care of children	-	176,753	176,724	(29)
Total community services and activities	-	200,838	200,838	-

continued...

## HARPER CREEK COMMUNITY SCHOOLS

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

Budget and Actual - General Fund  
For the Year Ended June 30, 2020

	Original Budget	Final Budget	Actual	Actual Over (under) Final Budget
<b>Expenditures (continued)</b>				
Debt service:				
Principal	\$ 31,920	\$ 31,920	\$ 31,920	\$ -
Interest	1,839	1,839	1,839	-
Total debt service	<u>33,759</u>	<u>33,759</u>	<u>33,759</u>	<u>-</u>
<b>Total expenditures</b>	<u>27,851,310</u>	<u>29,786,682</u>	<u>29,848,401</u>	<u>61,719</u>
Revenues over (under) expenditures	(302,309)	(869,610)	649,809	1,519,419
<b>Other financing sources</b>				
Transfers in	<u>12,000</u>	<u>12,000</u>	<u>14,240</u>	<u>2,240</u>
<b>Net change in fund balance</b>	(290,309)	(857,610)	664,049	1,521,659
Fund balance, beginning of year	<u>3,054,502</u>	<u>3,054,502</u>	<u>3,054,502</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u><u>\$ 2,764,193</u></u>	<u><u>\$ 2,196,892</u></u>	<u><u>\$ 3,718,551</u></u>	<u><u>\$ 1,521,659</u></u>

concluded.

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

## NOTES TO FINANCIAL STATEMENTS

# HARPER CREEK COMMUNITY SCHOOLS

## Notes to Financial Statements

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Reporting Entity

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

#### *Government-wide and Fund Financial Statements*

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

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

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

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

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

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

# HARPER CREEK COMMUNITY SCHOOLS

## Notes to Financial Statements

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

The District reports the following major governmental funds:

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

The *2019 debt service fund* accounts for all financial resources restricted, committed or assigned to expenditure for principal and interest for the 2019 refunding bonds.

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

Additionally, the District reports the following fund types:

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

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

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

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

#### *Deposits*

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

#### *Receivables and payables*

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

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

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

# HARPER CREEK COMMUNITY SCHOOLS

## Notes to Financial Statements

### *Inventory and prepaids*

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

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

### *Capital assets*

Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 or computer equipment with an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition cost as of the date of donation.

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

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

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

### *Salaries payable and accrued employee benefits*

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

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

# HARPER CREEK COMMUNITY SCHOOLS

## Notes to Financial Statements

### *Deferred outflows of resources*

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

### *Unearned revenues*

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

### *Deferred inflows of resources*

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time. The governmental funds also report unavailable revenues, which arise only under a modified accrual basis of accounting that are reported as deferred inflows of resources. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The District reported no deferred inflows in governmental funds at June 30, 2020. In the government-wide financial statements, the District reports deferred inflows of resources related to pension and other postemployment benefit liabilities.

### *Compensated absences*

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

### *Long-term obligations*

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

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

# HARPER CREEK COMMUNITY SCHOOLS

## Notes to Financial Statements

### *Fund equity*

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

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

### *Interfund transactions*

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

### *Pensions and Other Postemployment Benefits*

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

### *Use of estimates*

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

## 2. STATE OF MICHIGAN SCHOOL AID

The District reports State of Michigan school aid in the fiscal year in which the District is entitled to the revenue as provided by State of Michigan school aid appropriation acts. State funding represented 75 percent of the District's general fund revenue during the 2020 fiscal year.

# HARPER CREEK COMMUNITY SCHOOLS

## Notes to Financial Statements

### 3. BUDGETARY COMPLIANCE

#### *Budgets and budgetary accounting*

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

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

#### *Excess of expenditures over appropriations in budgetary funds*

During the year ended June 30, 2020, the District incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

	Total Appropriations	Total Expenditures	Budget Variance
General fund			
Current:			
Instruction:			
Basic programs	\$ 16,104,258	\$ 16,108,324	\$ 4,066
Added needs	3,359,966	3,375,892	15,926
Supporting services:			
Pupil	1,166,662	1,167,181	519
Operations and maintenance	2,482,036	2,497,784	15,748
Security services	353,739	372,029	18,290
Transportation	1,313,491	1,317,118	3,627
Other services	720,324	743,220	22,896
Special revenue - food service fund	1,447,863	1,449,190	1,327

### 4. DEPOSITS

A reconciliation of cash as shown on the Statement of Net Position follows:

#### Statement of Net Position

Cash and cash equivalents	<u>\$ 3,602,452</u>
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#### Deposits

Checking and savings accounts	<u>\$ 3,602,452</u>
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# HARPER CREEK COMMUNITY SCHOOLS

## Notes to Financial Statements

### Statutory Authority

State statutes authorize the District to invest in:

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

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

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

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

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

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

### Deposit and investment risk

*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk.* State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The Districts' investment policy does not have specific limits in excess of state law on investment credit risk. The District had no investments at year-end.

*Custodial Credit Risk - Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year end, \$4,235,659 of the District's bank balance of \$4,485,659 was exposed to custodial credit risk because it was uninsured and uncollateralized.

# HARPER CREEK COMMUNITY SCHOOLS

## Notes to Financial Statements

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

### 5. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2020 was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Capital assets, not being depreciated:					
Land	\$ 812,508	\$ -	\$ -	\$ -	\$ 812,508
Construction in progress	-	114,968	-	-	114,968
	<u>812,508</u>	<u>114,968</u>	<u>-</u>	<u>-</u>	<u>927,476</u>
Capital assets, being depreciated:					
Buildings and improvements	80,125,641	-	-	-	80,125,641
Vehicles	2,827,646	326,330	-	-	3,153,976
Furniture and equipment	1,225,057	-	-	-	1,225,057
	<u>84,178,344</u>	<u>326,330</u>	<u>-</u>	<u>-</u>	<u>84,504,674</u>
Less accumulated depreciation for:					
Buildings and improvements	(25,177,143)	(1,536,209)	-	-	(26,713,352)
Vehicles	(1,957,070)	(191,013)	-	-	(2,148,083)
Furniture and equipment	(618,037)	(84,299)	-	-	(702,336)
	<u>(27,752,250)</u>	<u>(1,811,521)</u>	<u>-</u>	<u>-</u>	<u>(29,563,771)</u>
Total capital assets being depreciated, net	<u>56,426,094</u>	<u>(1,485,191)</u>	<u>-</u>	<u>-</u>	<u>54,940,903</u>
Governmental activities capital assets, net	<u>\$ 57,238,602</u>	<u>\$ (1,370,223)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 55,868,379</u>

Depreciation expense of \$1,811,521 was charged to the function "Unallocated depreciation", and not allocated to other functions.

# HARPER CREEK COMMUNITY SCHOOLS

## Notes to Financial Statements

### 6. PAYABLES

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

	General	Nonmajor Funds	Total
<b>Fund Financial Statements</b>			
Accounts payable	\$ 540,101	\$ 594	\$ 540,695
Salaries and related expenditures payable	2,067,877	3,367	2,071,244
	<u>\$ 2,607,978</u>	<u>\$ 3,961</u>	2,611,939
<b>Government-wide Financial Statements</b>			
Accrued interest on long-term debt			<u>311,092</u>
			<u>\$ 2,923,031</u>

### 7. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

At June 30, 2020, interfund receivables and payables consisted of the following:

	Due from Other Funds	Due to Other Funds
General fund	\$ -	\$ 2,700
Nonmajor governmental funds	2,700	-
	<u>\$ 2,700</u>	<u>\$ 2,700</u>

The District often reports interfund balances between many of its funds. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

For the year ended June 30, 2020, interfund transfers consisted of the following:

	Transfers out	Transfers in
General fund	\$ -	\$ 14,240
Nonmajor governmental funds	14,240	-
	<u>\$ 14,240</u>	<u>\$ 14,240</u>

# HARPER CREEK COMMUNITY SCHOOLS

## Notes to Financial Statements

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

For the year ended June 30, 2020, the District transferred funds to the general fund from the food service fund to settle allocable costs between the food service and the general fund.

### 8. LONG-TERM DEBT

Long-term debt and other obligations of the District at June 30, 2020, are summarized as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
General obligation bonds payable	\$ 42,795,000	\$ 15,790,000	\$ (6,840,000)	\$ 51,745,000	\$ 7,045,000
Capital leases payable	138,320	-	(31,920)	106,400	31,920
Subtotal - installment debt	42,933,320	15,790,000	(6,871,920)	51,851,400	7,076,920
Bond premium	3,508,118	-	(416,378)	3,091,740	416,378
School bond loan fund	15,426,197	5,006,595	(15,620,000)	4,812,792	-
Compensated absences	77,507	11,539	(2,031)	87,015	4,351
<b>Total long-term debt</b>	<b>\$ 61,945,142</b>	<b>\$ 20,808,134</b>	<b>\$ (22,910,329)</b>	<b>\$ 59,842,947</b>	<b>\$ 7,497,649</b>

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

# HARPER CREEK COMMUNITY SCHOOLS

## Notes to Financial Statements

### General obligation bonds

\$18,245,000 2015 Series A Refunding Bonds, due in annual installments of \$1,300,000 to \$2,150,000 through the year 2024; interest at 4.00%	\$ 8,375,000
\$20,300,000 2015 Series B Refunding Bonds (taxable), due in annual installments of \$3,720,000 to \$4,455,000 through the year 2021; interest at 1.31% to 2.74%	4,455,000
\$8,715,000 2016 Refunding Bonds, due in annual installments of \$600,000 to \$2,070,000 through the year 2029; interest at 4.00%	8,715,000
\$15,350,000 2017 Refunding Bonds, due in annual installments of \$455,000 to \$2,820,000 through the year 2033; interest at 2.00% to 5.00%	14,410,000
\$15,790,000 2019 Refunding Bonds, due in annual installments of \$895,000 to \$2,250,000 through the year 2031; interest at 1.95% to 2.74%	<u>15,790,000</u>
<b>Total general obligation bonds</b>	<b><u>\$ 51,745,000</u></b>

### Advance Refunding

The District issued \$15,790,000 in refunding bonds during the year to refund \$15,620,000 in School Bond Loan Fund debt. The refunding resulted in a savings of \$1,570,312 over the next sixteen years and an economic gain of \$1,316,351.

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

Year Ended June 30,	Principal	Interest	Total
2021	\$ 7,045,000	\$ 1,480,251	\$ 8,525,251
2022	3,695,000	1,254,450	4,949,450
2023	3,825,000	1,142,450	4,967,450
2024	3,950,000	1,038,500	4,988,500
2025	4,085,000	929,300	5,014,300
2026-2030	22,700,000	2,949,700	25,649,700
2031-2033	<u>6,445,000</u>	<u>313,250</u>	<u>6,758,250</u>
<b>Totals</b>	<b><u>\$ 51,745,000</u></b>	<b><u>\$ 9,107,901</u></b>	<b><u>\$ 60,852,901</u></b>

### Capital leases payable

\$159,600 capital lease agreement, due in monthly installments of \$2,660 through the year 2024; interest at 0.00%	<u>\$ 106,400</u>
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# HARPER CREEK COMMUNITY SCHOOLS

## Notes to Financial Statements

Future minimum lease payments are as follows:

Year Ended June 30,	Payments
2021	\$ 31,920
2022	31,920
2023	31,920
2024	<u>10,640</u>
<b>Totals</b>	<b><u>\$ 106,400</u></b>

Of the amounts reported in capital assets, \$159,600 of furniture and equipment was purchased through a capital lease. The related accumulated depreciation was \$31,920 at year-end.

### School Bond Loan Fund

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

	School Loan Revolving Fund		
	Principal	Interest	Total
Beginning balance	\$ 14,823,526	\$ 602,671	\$ 15,426,197
Additions	4,779,200	227,395	5,006,595
Refunding	<u>(14,818,133)</u>	<u>(801,867)</u>	<u>(15,620,000)</u>
<b>Ending balance</b>	<b><u>\$ 4,784,593</u></b>	<b><u>\$ 28,199</u></b>	<b><u>\$ 4,812,792</u></b>

## 9. RISK MANAGEMENT

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

## 10. PROPERTY TAXES

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

# HARPER CREEK COMMUNITY SCHOOLS

## Notes to Financial Statements

### 11. PENSION AND OTHER POSTEMPLOYMENT BENEFITS PLANS

#### *Plan Description*

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

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

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

The System's financial statements are available at the ORS website at [www.michigan.gov/orsschools](http://www.michigan.gov/orsschools).

#### *Pension Benefits Provided*

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

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

# HARPER CREEK COMMUNITY SCHOOLS

## Notes to Financial Statements

Participants in the defined contribution plan consist of one of the following: (1) members who worked for a Michigan public school on or after September 4, 2012 and elected to be enrolled in the defined contribution plan; (2) members who elected to transfer from the defined benefit plan to the defined contribution plan under the reform (P.A. 300) of 2012; or (3) members who worked for a Michigan public school on or after February 1, 2018 and did not elect participation in the Pension Plus 2 plan. Members who worked for a Michigan public school on or after September 4, 2012 and elected to be enrolled in the defined contribution plan receive a 100% match of the member contribution rate up to a maximum of 3% based on the member's gross earnings. Additionally, there is a mandatory employer contribution of 4% of the member's gross earnings for MPSERS members who elected to convert from a Basic or MIP benefit plan to the defined contribution benefit plan. Members electing the Pension Plus or Pension Plus 2 benefit plan receive a 50% match of the member's contribution percent up to a maximum of 1% based on the member's gross earnings. Effective October 1, 2017, there is a mandatory employer contribution of 4% of the member's gross earnings for members who elect the Defined Contribution benefit plan. The employer must match 100% of the employee contribution for any member who elected the Personal Healthcare Fund up to a maximum of 2% of the member's gross earnings. For all members with a Personal Health Care Fund (PHF), the first 2% of DC contributions must go into the PHF and must be matched 100% by the employer.

### *Other Postemployment Benefits Provided*

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

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

## HARPER CREEK COMMUNITY SCHOOLS

### Notes to Financial Statements

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

#### *Contributions*

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

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2018 valuation will be amortized over a 20-year period beginning October 1, 2018 and ending September 30, 2038.

The table below summarizes pension contribution rates in effect for fiscal year 2020:

Benefit Structure	Member Rates	Employer Rates
Basic	0.00% - 4.00%	18.25% - 19.41%
Member Investment Plan (MIP)	3.00% - 7.00%	18.25% - 19.41%
Pension Plus	3.00% - 6.40%	16.46%
Pension Plus 2	6.20%	19.59%
Defined Contribution	0.00%	13.39%

For the year ended June 30, 2020, required and actual contributions from the District to the pension plan were \$4,618,172, which included \$1,830,484, the amount received from the State and remitted to the System to fund the MPSERS unfunded actuarial accrued liability ("UAAL") stabilization rate.

The table below summarizes OPEB contribution rates in effect for fiscal year 2020:

Benefit Structure	Member Rates	Employer Rates
Premium Subsidy	3.00%	7.93% - 8.09%
Personal Healthcare Fund (PHF)	0.00%	7.57%

# HARPER CREEK COMMUNITY SCHOOLS

## Notes to Financial Statements

For the year ended June 30, 2020, required and actual contributions from the District to the OPEB plan were \$1,167,800.

The table below summarizes defined contribution rates in effect for fiscal year 2020:

Benefit Structure	Member Rates	Employer Rates
Defined Contribution	0.00% - 3.00%	0.00% - 7.00%
Personal Healthcare Fund (PHF)	0.00% - 2.00%	0.00% - 2.00%

For the year ended June 30, 2020, required and actual contributions from the District for those members with a defined contribution benefit were \$107,974.

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

At June 30, 2020, the District reported a liability of \$54,727,910 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2018. The District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2019, the District's proportion was 0.16526%, which was an increase of 0.00363% from its proportion measured as of September 30, 2018.

For the year ended June 30, 2020, the District recognized pension expense of \$9,136,474. At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Differences between expected and actual experience	\$ 245,308	\$ 228,210	\$ 17,098
Changes in assumptions	10,715,763	-	10,715,763
Net difference between projected and actual earnings on pension plan investments	-	1,753,937	(1,753,937)
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,595,817	40,222	1,555,595
	12,556,888	2,022,369	10,534,519
District contributions subsequent to the measurement date	4,285,048	-	4,285,048
<b>Total</b>	<b>\$ 16,841,936</b>	<b>\$ 2,022,369</b>	<b>\$ 14,819,567</b>

# HARPER CREEK COMMUNITY SCHOOLS

## Notes to Financial Statements

The \$4,285,048 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, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Amount
2021	\$ 4,235,907
2022	3,339,122
2023	2,122,517
2024	<u>836,973</u>
<b>Total</b>	<b><u>\$ 10,534,519</u></b>

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

At June 30, 2020, the District reported a liability of \$11,936,244 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2018. The District's proportion of the net OPEB liability was determined by dividing each employer's statutorily required OPEB contributions to the system during the measurement period by the percent of OPEB contributions required from all applicable employers during the measurement period. At September 30, 2019, the District's proportion was 0.16630% which was an increase of 0.00365% from its proportion measured as of September 30, 2018.

For the year ended June 30, 2020, the District recognized OPEB expense of \$435,489. At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Differences between expected and actual experience	\$ -	\$ 4,379,745	\$ (4,379,745)
Changes in assumptions	2,586,342	-	2,586,342
Net difference between projected and actual earnings on OPEB plan investments	-	207,577	(207,577)
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>543,112</u>	<u>14,618</u>	<u>528,494</u>
	3,129,454	4,601,940	(1,472,486)
District contributions subsequent to the measurement date	<u>1,023,051</u>	<u>-</u>	<u>1,023,051</u>
<b>Total</b>	<b><u>\$ 4,152,505</u></b>	<b><u>\$ 4,601,940</u></b>	<b><u>\$ (449,435)</u></b>

# HARPER CREEK COMMUNITY SCHOOLS

## Notes to Financial Statements

The \$1,023,051 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, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30,	Amount
2021	\$ (425,502)
2022	(425,502)
2023	(321,954)
2024	(191,376)
2025	(108,152)
<b>Total</b>	<b>\$ (1,472,486)</b>

### Actuarial Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The total pension and OPEB liabilities in the September 30, 2018 actuarial valuation were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry age, normal
Wage inflation rate	2.75%
Investment rate of return:	
MIP and Basic plans (non-hybrid)	6.80%
Pension Plus plan (hybrid)	6.80%
Pension Plus 2 plan (hybrid)	6.00%
OPEB plans	6.95%
Projected salary increases	2.75% - 11.55%, including wage inflation at 2.75%
Cost of living adjustments	3% annual non-compounded for MIP members
Healthcare cost trend rate	7.5% Year 1 graded to 3.5% Year 12
Mortality	RP-2014 Male and Female Employee Annuitant Mortality Tables, adjusted for mortality improvements using projection scale MP-2017 from 2006. For retirees, the tables were scaled by 82% for males and 78% for females. For active members, 100% of the table rates were used for both males and females

# HARPER CREEK COMMUNITY SCHOOLS

## Notes to Financial Statements

### Other OPEB assumptions:

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

Assumption changes as a result of an experience study for the period 2012 through 2017 have been adopted by the System for use in the annual pension and OPEB valuations beginning with the September 30, 2017 valuation. The total pension and OPEB liabilities as of September 30, 2019, are based on the results of an actuarial valuation date of September 30, 2018, and rolled forward using generally accepted actuarial procedures, including the experience study. The recognition period for pension liabilities is 4.4977 years which is the average of the expected remaining service lives of all employees. The recognition period for OPEB liabilities is 5.7101 years which is the average of the expected remaining service lives of all employees. The recognition period for assets is 5 years.

### *Long-term Expected Return on Pension 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, 2019, are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
Domestic equity pools	28.00%	5.50%	1.54%
Private equity pools	18.00%	8.60%	1.55%
International equity pools	16.00%	7.30%	1.17%
Fixed income pools	10.50%	1.20%	0.13%
Real estate and infrastructure pools	10.00%	4.20%	0.42%
Absolute return pools	15.50%	5.40%	0.84%
Short-term investment pools	2.00%	0.08%	0.00%
	<u>100.00%</u>		5.65%
Inflation			2.30%
Risk adjustment			<u>-1.15%</u>
Investment rate of return			<u>6.80%</u>

# HARPER CREEK COMMUNITY SCHOOLS

## Notes to Financial Statements

### *Long-term Expected Return on OPEB 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, 2019, are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
Domestic equity pools	28.00%	5.50%	1.54%
Private equity pools	18.00%	8.60%	1.55%
International equity pools	16.00%	7.30%	1.17%
Fixed income pools	10.50%	1.20%	0.13%
Real estate and infrastructure pools	10.00%	4.20%	0.42%
Absolute return pools	15.50%	5.40%	0.84%
Short-term investment pools	2.00%	0.08%	0.00%
	<u>100.00%</u>		5.65%
Inflation			2.30%
Risk adjustment			<u>-1.00%</u>
Investment rate of return			<u>6.95%</u>

### *Rate of Return*

For the fiscal year ended September 30, 2019, the annual money-weighted rate of return on pension and OPEB plan investments, net of pension and OPEB plan investment expense, was 5.14% and 5.37%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

# HARPER CREEK COMMUNITY SCHOOLS

## Notes to Financial Statements

### *Discount Rate*

A discount rate of 6.80% was used to measure the total pension liability (6.80% for the Pension Plus plan, 6.00% for the Pension Plus 2 plan, both of which are hybrid plans provided through non-university employers only) and a discount rate of 6.95% was used to measure the total OPEB liability. This discount rate was based on the long-term expected rate of return on pension and OPEB plan investments of 6.80% (6.80% for the Pension Plus plan, 6.00% for the Pension Plus 2 plan) and 6.95%, respectively. The projection of cash flows used to determine these discount rates assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension and OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension and OPEB plan investments was applied to all periods of projected benefit payments to determine the total pension and OPEB liabilities.

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

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 6.80% (6.80% for the Pension Plus plan, 6.00% for the Pension Plus 2 plan), as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher:

	1% Decrease (5.80% / 5.80% / 5.00%)	Current Discount Rate (6.80% / 6.80% / 6.00%)	1% Increase (7.80% / 7.80% / 7.00%)
District's proportionate share of the net pension liability	\$ 71,149,784	\$ 54,727,910	\$ 41,113,610

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

The following presents the District's proportionate share of the net OPEB liability calculated using the discount rate of 6.95%, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher:

	1% Decrease (5.95%)	Current Discount Rate (6.95%)	1% Increase (7.95%)
District's proportionate share of the net OPEB liability	\$ 14,641,597	\$ 11,936,244	\$ 9,664,499

# HARPER CREEK COMMUNITY SCHOOLS

## Notes to Financial Statements

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

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

	1% Decrease (6.50%)	Current Healthcare Cost Trend Rate (7.50%)	1% Increase (8.50%)
District's proportionate share of the net OPEB liability	\$ 9,568,187	\$ 11,936,244	\$ 14,641,276

### *Pension and OPEB Plans Fiduciary Net Position*

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

### *Payable to the Pension Plan*

At June 30, 2020, the District reported a payable of \$578,901 for the outstanding amount of pension contributions to the Plan required for the year ended June 30, 2020.

### *Payable to the OPEB Plan*

At June 30, 2020, the District reported a payable of \$102,505 for the outstanding amount of OPEB contributions to the Plan required for the year ended June 30, 2020.

## 12. NET INVESTMENT IN CAPITAL ASSETS

The composition of net investment in capital assets as of June 30, 2020, was as follows:

Capital assets not being depreciated	\$ 927,476
Capital assets being depreciated, net	54,940,903
Installment debt	(51,851,400)
Non-capital related debt	20,245,000
Bond premium	(3,091,740)
Deferred charge on bond refunding	1,026,044
	<hr/>
Net investment in capital assets	<u>\$ 22,196,283</u>

# HARPER CREEK COMMUNITY SCHOOLS

## Notes to Financial Statements

### 13. CORONAVIRUS (COVID-19)

In March 2020, the World Health Organization declared the novel coronavirus outbreak (COVID-19) to be a global pandemic. The extent of the ultimate impact of the pandemic on the District's operational and financial performance will depend on various developments, including the duration and spread of the outbreak and its impact on employees, vendors, and taxpayers, all of which cannot be reasonably predicted at this time. In addition, it will continue to place additional demands on the District as it determines the appropriate methods to deliver education to students in a safe environment. While management reasonably expects the COVID-19 outbreak to negatively impact the District's financial position, changes in financial position, and, where applicable, the timing and amounts of cash flows, the related financial consequences and duration are highly uncertain.

### 14. RESTATEMENTS

The District adopted the provisions of GASB Statement No. 84, *Fiduciary Activities*, in the current year. As a result of this change, beginning fund balance of the student/school activity special revenue fund and the net position of governmental activities was increased by \$394,375.

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## REQUIRED SUPPLEMENTARY INFORMATION

## HARPER CREEK COMMUNITY SCHOOLS

### Required Supplementary Information

#### MPERS Cost-Sharing Multiple-Employer Plan

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

	Year Ended June 30,		
	2020	2019	2018
District's proportionate share of the net pension liability	\$ 54,727,910	\$ 48,590,222	\$ 41,079,377
District's proportion of the net pension liability	0.16526%	0.16163%	0.15852%
District's covered payroll	\$ 14,525,335	\$ 13,842,535	\$ 13,453,797
District's proportionate share of the net pension liability as a percentage of its covered payroll	376.78%	351.02%	305.34%
Plan fiduciary net position as a percentage of the total pension liability	60.31%	62.36%	64.21%

See notes to required supplementary information.

Year Ended June 30,		
2017	2016	2015

\$ 38,179,920	\$ 37,205,798	\$ 33,416,465
0.15303%	0.15233%	0.15171%
\$ 12,939,039	\$ 12,870,674	\$ 12,966,916
295.08%	289.07%	257.71%
63.27%	63.17%	66.20%

## HARPER CREEK COMMUNITY SCHOOLS

### Required Supplementary Information

#### MPSERS Cost-Sharing Multiple-Employer Plan Schedule of the District's Pension Contributions

	Year Ended June 30,		
	2020	2019	2018
Statutorily required contribution	\$ 4,618,172	\$ 4,364,842	\$ 4,417,200
Contributions in relation to the statutorily required contribution	<u>(4,618,172)</u>	<u>(4,364,842)</u>	<u>(4,417,200)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 14,776,305	\$ 14,374,232	\$ 13,828,927
Contributions as a percentage of covered payroll	31.25%	30.37%	31.94%

See notes to required supplementary information.

Year Ended June 30,		
2017	2016	2015
\$ 3,720,967	\$ 3,664,574	\$ 2,752,177
<u>(3,720,967)</u>	<u>(3,664,574)</u>	<u>(2,752,177)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 13,498,334	\$ 12,890,178	\$ 12,960,617
27.57%	28.43%	21.23%

## HARPER CREEK COMMUNITY SCHOOLS

### Required Supplementary Information

#### MPSERS Cost-Sharing Multiple-Employer Plan

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

	Year Ended June 30,		
	2020	2019	2018
District's proportionate share of the net OPEB liability	\$ 11,936,244	\$ 12,929,182	\$ 13,989,492
District's proportion of the net OPEB liability	0.16630%	0.16265%	0.15798%
District's covered payroll	\$ 14,525,335	\$ 13,842,535	\$ 13,453,797
District's proportionate share of the net OPEB liability as a percentage of its covered payroll	82.18%	93.40%	103.98%
Plan fiduciary net position as a percentage of the total OPEB liability	48.46%	42.95%	36.39%

See notes to required supplementary information.

## HARPER CREEK COMMUNITY SCHOOLS

### Required Supplementary Information

#### MPSERS Cost-Sharing Multiple-Employer Plan

#### Schedule of the District's Other Postemployment Benefit Contributions

	Year Ended June 30,		
	2020	2019	2018
Statutorily required contribution	\$ 1,167,800	\$ 1,126,450	\$ 1,023,873
Contributions in relation to the statutorily required contribution	<u>(1,167,800)</u>	<u>(1,126,450)</u>	<u>(1,023,873)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 14,776,305	\$ 14,374,232	\$ 13,828,927
Contributions as a percentage of covered payroll	7.90%	7.84%	7.40%

See notes to required supplementary information.

# HARPER CREEK COMMUNITY SCHOOLS

## Notes to Required Supplementary Information

### Pension Information

GASB 68 was implemented in fiscal year 2015. The pension plan schedules are being built prospectively. Ultimately, 10 years of data will be presented.

The amounts presented in the schedule of the District's Proportionate Share of the Net Pension Liability were determined as of September 30 of the preceding year (the plan year).

The significant changes in assumptions for each of the fiscal years ended June 30 were as follows:

- 2020 - The discount rate used in the September 30, 2018 actuarial valuation decreased to 6.80% for the MIP and Basic plans, 6.80% for the Pension Plus Plan, and 6.00% for the Pension Plus 2 Plan.
- 2019 - The discount rate used in the September 30, 2017 actuarial valuation decreased to 7.05% for the MIP and Basic plans, 7.00% for the Pension Plus plan, and 6.00% for the Pension Plus 2 plan.
- 2018 - The discount rate used in the September 30, 2016 actuarial valuation decreased to 7.50% for the MIP and Basic plans and 7.00% for the Pension Plus plan.

### OPEB Information

GASB 75 was implemented in fiscal year 2018. The OPEB plan schedules are being built prospectively. Ultimately, 10 years of data will be presented.

The amounts presented in the schedule of the District's Proportionate Share of the Net OPEB Liability were determined as of September 30 of the preceding year (the plan year).

The significant changes in assumptions for each of the fiscal years ended June 30 were as follows:

- 2020 - The discount rate used in the September 30, 2018 actuarial valuation decreased to 6.95%.
- 2019 - The discount rate used in the September 30, 2017 actuarial valuation decreased to 7.15%.

## COMBINING FUND STATEMENTS

# HARPER CREEK COMMUNITY SCHOOLS

## Combining Balance Sheet

Nonmajor Governmental Funds

June 30, 2020

	Special Revenue		Debt Service	
	Food Service	Student/School Activity	2017 Debt Service	2016 Debt Service
<b>Assets</b>				
Cash and cash equivalents	\$ 485,457	\$ 355,001	\$ 29,967	\$ 10,608
Due from other governments	121,030	-	-	-
Due from other funds	2,700	-	-	-
Inventory	14,987	-	-	-
<b>Total assets</b>	<b>\$ 624,174</b>	<b>\$ 355,001</b>	<b>\$ 29,967</b>	<b>\$ 10,608</b>
<b>Liabilities</b>				
Accounts payable	\$ 594	\$ -	\$ -	\$ -
Salaries and related expenditures payable	3,367	-	-	-
<b>Total liabilities</b>	<b>3,961</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Fund balances</b>				
Nonspendable	14,987	-	-	-
Restricted	605,226	-	29,967	10,608
Committed	-	355,001	-	-
<b>Total fund balances</b>	<b>620,213</b>	<b>355,001</b>	<b>29,967</b>	<b>10,608</b>
<b>Total liabilities and fund balances</b>	<b>\$ 624,174</b>	<b>\$ 355,001</b>	<b>\$ 29,967</b>	<b>\$ 10,608</b>



Debt Service		
2015 Debt Service	Capital Projects	Total
\$ 64,321	\$ 522,167	\$ 1,467,521
-	-	121,030
-	-	2,700
-	-	14,987
<hr/>		
\$ 64,321	\$ 522,167	\$ 1,606,238
<hr/>		
\$ -	\$ -	\$ 594
-	-	3,367
<hr/>		
-	-	3,961
<hr/>		
-	-	14,987
64,321	-	710,122
-	522,167	877,168
<hr/>		
64,321	522,167	1,602,277
<hr/>		
\$ 64,321	\$ 522,167	\$ 1,606,238
<hr/>		

## HARPER CREEK COMMUNITY SCHOOLS

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

Nonmajor Governmental Funds

For the Year Ended June 30, 2020

	Special Revenue		Debt Service	
	Food Service	Student/School Activity	2017 Debt Service	2016 Debt Service
<b>Revenues</b>				
Local sources	\$ 363,216	\$ 574,425	\$ 620,228	\$ 250,334
State sources	53,068	-	6,062	2,446
Federal sources	1,104,983	-	-	-
<b>Total revenues</b>	<b>1,521,267</b>	<b>574,425</b>	<b>626,290</b>	<b>252,780</b>
<b>Expenditures</b>				
Current:				
Supporting services	-	613,799	-	-
Food service	1,446,925	-	-	-
Debt service:				
Principal	-	-	455,000	-
Interest	-	-	691,140	347,740
Other	-	-	1,141	759
Capital outlay	2,265	-	-	-
<b>Total expenditures</b>	<b>1,449,190</b>	<b>613,799</b>	<b>1,147,281</b>	<b>348,499</b>
Revenues over (under) expenditures	72,077	(39,374)	(520,991)	(95,719)
<b>Other financing sources (uses)</b>				
Issuance of long-term debt	-	-	523,444	96,171
Transfers out	(14,240)	-	-	-
<b>Total other financing sources (uses)</b>	<b>(14,240)</b>	<b>-</b>	<b>523,444</b>	<b>96,171</b>
<b>Net change in fund balances</b>	<b>57,837</b>	<b>(39,374)</b>	<b>2,453</b>	<b>452</b>
Fund balances, beginning of year, as restated	562,376	394,375	27,514	10,156
<b>Fund balances, end of year</b>	<b>\$ 620,213</b>	<b>\$ 355,001</b>	<b>\$ 29,967</b>	<b>\$ 10,608</b>

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Debt Service		
2015 Debt Service	Capital Projects	Total
\$ 1,184,239	\$ 6,606	\$ 2,999,048
11,539	-	73,115
-	-	1,104,983
<u>1,195,778</u>	<u>6,606</u>	<u>4,177,146</u>
-	-	613,799
-	-	1,446,925
2,150,000	-	2,605,000
424,681	-	1,463,561
2,050	-	3,950
-	671,074	673,339
<u>2,576,731</u>	<u>671,074</u>	<u>6,806,574</u>
<u>(1,380,953)</u>	<u>(664,468)</u>	<u>(2,629,428)</u>
1,381,310	-	2,000,925
-	-	(14,240)
<u>1,381,310</u>	<u>-</u>	<u>1,986,685</u>
357	(664,468)	(642,743)
<u>63,964</u>	<u>1,186,635</u>	<u>2,245,020</u>
<u>\$ 64,321</u>	<u>\$ 522,167</u>	<u>\$ 1,602,277</u>

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## SINGLE AUDIT ACT COMPLIANCE

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

October 8, 2020

Board of Education  
Harper Creek Community Schools  
Battle Creek, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of *Harper Creek Community Schools* (the "District") as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated October 8, 2020, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Rehmann Lohman LLC*

Rehmann is an independent member of Nexia International.



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## HARPER CREEK COMMUNITY SCHOOLS

### Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2020

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number	Approved Grant Award Amount
<b>U.S. Department of Agriculture</b>				
Child Nutrition Cluster:				
School Breakfast Program	10.553	MDE	191970	\$ 168,715
School Breakfast Program	10.553	MDE	201970	93,106
National School Lunch Sec. 11- Free & Reduced	10.555	MDE	191960	531,004
National School Lunch Sec. 11- Free & Reduced	10.555	MDE	201960	309,152
National School Lunch Sec. 11- Free & Reduced	10.555	MDE	191980	6,280
National School Lunch Sec. 11- Free & Reduced	10.555	MDE	201980	3,925
COVID-19 - Unanticipated School Closure	10.555	MDE	200902	419,386
COVID-19 - National School Lunch Sec. 11- Free & Reduced	10.555	MDE	201922	22,997
Entitlement commodities (non-cash assistance)	10.555	MDE	n/a	78,818
Summer Food Service Program	10.559	MDE	190900	64,754
Summer Food Service Program	10.559	MDE	191900	6,525
<b>Total Child Nutrition Cluster</b>				
Child and Adult Care Food Program:				
Afterschool snacks	10.558	MDE	191920	34,006
Afterschool snacks	10.558	MDE	192010	10,992
Afterschool snacks	10.558	MDE	201920	21,711
Afterschool snacks	10.558	MDE	202010	3,113
<b>Total U.S. Department of Agriculture</b>				
<b>U.S. Department of Education</b>				
Title I Part A:				
Regular Carry Over 2018/2019	84.010	MDE	191530	329,350
Regular 2019/2020	84.010	MDE	201530	328,818
Title II Part A Regular:				
Improving Teacher Quality Carry Over 2018/2019	84.367	MDE	190520	150,577
Improving Teacher Quality 2019/2020	84.367	MDE	200520	135,738
Title III:				
Immigrant Students 2018/2019	84.365A	MDE	190570	1,024
Immigrant Students 2018/2019	84.365A	LCS	190570	5,302
Title IV Part A:				
Student Support and Academic Enrichment 2018/2019	84.424A	MDE	190750	26,230
Student Support and Academic Enrichment 2019/2020	84.424A	MDE	200750	26,992
<b>Total U.S. Department of Education</b>				
<b>Total Federal Financial Assistance</b>				

See notes to schedule of expenditures of federal awards.

Accrued (Unearned) Revenue June 30, 2019	Current Year Cash Received	Federal Expenditures (Memo Only) Prior Year(s)	Federal Expenditures Year Ended June 30, 2020	Accrued (Unearned) Revenue June 30, 2020
\$ 7,109	\$ 31,564	\$ 144,260	\$ 24,455	\$ -
-	93,106	-	93,106	-
7,109	124,670	144,260	117,561	-
17,520	104,067	444,457	86,547	-
-	309,152	-	309,152	-
345	1,220	5,405	875	-
-	3,925	-	3,925	-
-	306,088	-	419,386	113,298
-	22,997	-	22,997	-
-	78,818	-	78,818	-
17,865	826,267	449,862	921,700	113,298
8,370	41,330	31,794	32,960	-
718	3,541	3,702	2,823	-
9,088	44,871	35,496	35,783	-
34,062	995,808	629,618	1,075,044	113,298
423	5,205	29,224	4,782	-
30	363	10,659	333	-
-	21,711	-	21,711	-
-	3,113	-	3,113	-
453	30,392	39,883	29,939	-
34,515	1,026,200	669,501	1,104,983	113,298
136,474	143,850	296,182	7,376	-
-	209,118	-	284,643	75,525
136,474	352,968	296,182	292,019	75,525
25,455	36,638	75,883	11,183	-
-	23,084	-	31,389	8,305
25,455	59,722	75,883	42,572	8,305
986	986	986	-	-
4,230	4,230	4,400	902	902
5,216	5,216	5,386	902	902
3,793	17,613	6,551	13,820	-
-	20,630	-	14,529	(6,101)
3,793	38,243	6,551	28,349	(6,101)
170,938	456,149	384,002	363,842	78,631
\$ 205,453	\$ 1,482,349	\$ 1,053,503	\$ 1,468,825	\$ 191,929

# HARPER CREEK COMMUNITY SCHOOLS

## Notes to Schedule of Expenditures of Federal Awards

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Harper Creek Community Schools (the "District") under programs of the federal government for the year ended June 30, 2020. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting, which is described in Note 1 to the District's financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

Cash received is recorded on the cash basis; expenditures are recorded on the modified accrual basis of accounting. Revenues are recognized when the qualifying expenditures have been included and all grant requirements have been met.

The Schedule has been arranged to provide information on both actual cash received and the revenue recognized. Accordingly, the effects of accruals of accounts receivable, unearned revenue and accounts payable items at both the beginning and end of the fiscal year have been reported.

Expenditures are in agreement with amounts reported in the financial statements and the financial reports. The amounts reported on the Grant Auditor Report reconcile with this Schedule.

### 2. 10% DE MINIMIS COST RATE

For purposes of charging indirect costs to federal awards, the District has not elected to use the 10 percent de minimis cost rate as permitted by §200.414 of the Uniform Guidance.

### 3. PASS-THROUGH AGENCIES

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

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

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

October 8, 2020

Board of Education  
Harper Creek Community Schools  
Battle Creek, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of *Harper Creek Community Schools* (the "District"), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 8, 2020.

**Internal Control Over Financial Reporting**

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

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

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

## Compliance and Other Matters

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

## Purpose of this Report

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

A handwritten signature in black ink that reads "Lehmann Johnson LLC". The signature is written in a cursive, flowing style.

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

October 8, 2020

Board of Education  
Harper Creek Community Schools  
Battle Creek, Michigan

**Report on Compliance for the Major Federal Program**

We have audited the compliance of *Harper Creek Community Schools* (the "District") with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended June 30, 2020. The District's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Independent Auditors' Responsibility***

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

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the District's compliance.

### *Opinion on the Major Federal Program*

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2020.

### *Other Matters*

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2020-001. Our opinion on the major federal program is not modified with respect to this matter.

The District's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

### **Report on Internal Control Over Compliance**

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

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

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

*Purpose of this Report*

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

*Rehmann Rohan LLC*

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# HARPER CREEK COMMUNITY SCHOOLS

## Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2020

### SECTION I - SUMMARY OF AUDITORS' RESULTS

#### Financial Statements

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

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?            yes       X       no

Significant deficiency(ies) identified?            yes       X       none reported

Noncompliance material to financial statements  
noted?            yes       X       no

#### Federal Awards

Internal control over major programs:

Material weakness(es) identified?            yes       X       no

Significant deficiency(ies) identified?            yes       X       none reported

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

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

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>	<u>Type of Report</u>
10.553, 10.555 and 10.559	Child Nutrition Cluster	Unmodified

Dollar threshold used to distinguish  
between Type A and Type B programs:       \$      750,000      

Auditee qualified as low-risk auditee?       X       yes            no

# HARPER CREEK COMMUNITY SCHOOLS

## Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2020

### SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

### SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

#### 2020-001 - Program Income - Food Service Fund Balance (Repeat)

**Finding Type.** Immaterial Noncompliance

**Federal program(s)**

*U.S. Department of Agriculture*

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

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

**Condition.** As of June 30, 2020, the District's fund balance exceeded three months' average of operating expenses.

**Cause.** This condition appears to be the result of construction delays and additional revenues received from the unanticipated school closure program.

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

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

**Recommendation.** We recommend the District closely monitor it's budget during the year ended June 30, 2021 to ensure that fund balance is reduced to an appropriate level.

**View of Responsible Official.** The District is working on updating the equipment in all kitchens throughout the District along with the renovation of the serving line at the middle school. Due to COVID-19, the District received additional funding and was unable to complete construction on the middle school project prior to year-end. The District expects these updates to reduce the fund balance within the food service fund to an appropriate level for the 2021 fiscal year.

**Responsible Officials.** Business Manager and Food Service Director

**Estimated Completion Date.** June 30, 2021

■ ■ ■ ■ ■

## HARPER CREEK COMMUNITY SCHOOLS

### Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2020

#### Finding 2019-001 - Special Tests and Provisions - Food Service Fund Balance

The District's food service fund balance exceeded three months' average of operating expenses. As a result of this condition, the District did not fully comply with USDA fund balance requirements. This finding has been repeated in the current year as 2020-001.

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