HANOVER-HORTON SCHOOL DISTRICT

FINANCIAL STATEMENTS

YEAR ENDED
JUNE 30, 2018

HANOVER-HORTON SCHOOL DISTRICT

LIST OF PRINCIPAL INDIVIDUALS

Board of Education

Gary Schuette	President
Christine Vincent	Vice President
Joseph Childs	Secretary
Leon Densmore	Treasurer
Gail Proctor	Board Member
Chris Blackledge	Board Member
Tim Evans	Board Member

Management

John Denney	Superintendent
Adrienne Spencer	Business Manager

HANOVER-HORTON SCHOOL DISTRICT

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INDEPENDENT AUDITORS' REPORT

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Hanover-Horton School District, as of June 30, 2018, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting Changes

As described in Note 23 to the financial statements, the District adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Our opinions are not modified with respect to these matters.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, budgetary comparison information, the Schedule of Reporting Unit's Proportionate Share of Net Pension Liability, the Schedule of Reporting Unit's Contributions for pensions, the Schedule of Reporting Unit's Proportionate Share of Net OPEB Liability, the Schedule of Reporting Unit's Contributions for OPEB on pages 3-9 and 43-48 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 Hanover-Horton School District's basic financial statements. The other supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplemental 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplemental 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 August 27, 2018, on our consideration of the Hanover-Horton School 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 Hanover-Horton School District's internal control over financial reporting and compliance.

Karl L Drake

Drake Certified Public Accountants
August 27, 2018

HANOVER-HORTON SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Hanover-Horton School District's annual financial report presents discussion and analysis of the School District's financial performance during the year ended June 30, 2018. It is best read in conjunction with the School District's financial statements, which immediately follow this section.

Using this Annual Report

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

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

Basic Financial Statements

District-Wide Financial Statements *Fund Financial Statements*

Notes to the Basic Financial Statements

Schedules for Net Pension Liability
Schedules for Net OPEB Liability
Budgetary Information for the General Fund and Food Service
(Required Supplemental Information)

Other Supplemental Information

Reporting the School District as a Whole - Government-Wide Financial Statements

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net position and the statement of activities (that appear first in the School District's financial statements) report information on the School District as a whole and its activities in a way that helps answer this question. These statements are prepared to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

Reporting the School District as a Whole - Government-Wide Financial Statements (Continued)

These two statements report the School District's net position - the difference between assets and liabilities, as reported in the statement of net position - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net position - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenue and expenses is the School District's operating results. However, the School District's goal is to provide services to students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net position and statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, supporting services, community services, athletics, and food services. Property taxes, unrestricted state aid (foundation allowance revenue), and state and federal grants finance most of these activities.

Reporting the School District's Most Significant Funds - Fund Financial Statements

The School District's fund financial statements provide detailed information about the most significant funds - not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes funds as needed to help it control and manage money for particular purposes or to show that it's meeting legal responsibilities for using certain taxes, grants, and other money. The governmental funds of the School District use the following accounting approach:

Governmental Funds

All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing money inflow and outflow and the balances remaining at year end which are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. The relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds is described in a reconciliation.

Reporting the School District's Fiduciary Responsibilities - The School District as Trustee

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in a separate statement of fiduciary net position. These activities are excluded from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The School District as a Whole

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

TABLE 1	Governmental Activities (In Millions)	
	2018	2017
ASSETS		
Current and other assets	$ 3.9	$ 4.3
Capital assets - net of accumulated depreciation	6.9	7.1
TOTAL ASSETS	10.8	11.4
DEFERRED OUTFLOWS OF RESOURCES	3.7	2.6
LIABILITIES		
Current liabilities	2.9	3.1
Long-term liabilities	23.1	23.7
TOTAL LIABILITIES	26.0	26.8
DEFERRED INFLOWS OF RESOURCES	2.2	1.3
NET POSITION		
Invested in property and equipment - net of related debt	4.6	4.1
Restricted	0.8	1.2
Unrestricted	(19.1)	(19.4)
TOTAL NET POSITION	$ (13.7)	$ (14.1)

The above analysis focuses on the net position (see Table 1). The change in net position (see Table 2) of the School District's governmental activities is discussed below. The School District's net position was ($13.7) million at June 30, 2018. Capital assets, net of related debt totaling $4.6 million compares the original cost, less depreciation of the School District's capital assets to long-term debt, including accrued interest on capital appreciation bonds, used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use the net position for day-to-day operations. The remaining amount of net position ($19.1 million) was unrestricted.

The ($19.1) million in unrestricted net position of governmental activities represents the accumulated results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

The School District as a Whole (Continued)

The results of this year's operations for the School District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net position for fiscal year 2018 and 2017.

TABLE 2

	Governmental Activities (In Millions)	
	2018	2017
REVENUE		
Program Revenue		
Charges for Services	$ 0.7	$ 0.7
Grants and Categoricals	1.0	1.0
General Revenue		
Property Taxes	1.4	1.4
State Aid	7.4	7.3
Other	1.2	1.4
TOTAL REVENUE	11.7	11.8
FUNCTION/PROGRAM EXPENSES		
Instruction	6.6	6.4
Support Services	3.3	3.5
Athletics	0.3	0.3
Food Services	0.5	0.5
Interest on Long-Term Debt	0.1	0.1
Depreciation (Unallocated)	0.5	0.5
TOTAL FUNCTION/PROGRAM EXPENSES	11.3	11.3
INCREASE (DECREASE) IN NET POSITION	$ 0.4	$ 0.5

The primary reasons for the change in net position have been funding cuts at the state level and controlling expenditures. The net results are still negatively impacting School Districts across the state of Michigan and specifically our School District. The funding deficit has resulted in cuts to services across the School District.

The net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted state aid constitute the vast majority of School District operating revenue sources, the Board of Education and administration must annually evaluate the needs of the School District and balance those needs with state-prescribed available unrestricted resources.

The School District's Funds

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

As the School District completed this year, the governmental funds reported a combined fund balance of $1.6 million, which is a decrease of $305 thousand over last year. The primary reason for the increase is controlling expenditures. The General Fund, the principal operating fund, saw the fund balance increase $241,180 to $649,443, which is more than the budgeted increase of $24,918.

- Special Revenue Funds remained stable from the prior year, showing a net decrease of approximately $15,803.
- Combined, the Debt Service Funds showed a fund balance increase of $432,988. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. Fund Balances in the Debt Service Funds are restricted since they can only be used to pay debt service obligations.

General Budgetary Highlights

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

The School District has made cuts in line item spending as well as eliminating programs over the past few years in an attempt to lower expenditures. In addition, the School District has not replaced employees that have retired. Nine teaching positions were eliminated at the end of the 2014-15 school year in order to avoid going into deficit. In 2018, a bond was passed in order to address needed technology items to keep from making the purchases out of the general fund.

In the 2011-12 school year, the School District added a Virtual High School to try to increase enrollment. This program has averaged 10-15 students over the last few years.

Retirement costs have increased dramatically from 12% in 2001-2002 to as high as 30% in 2017-2018.

There was a slight increase in the State Foundation Allowance. However, there were other costs incurred by the School District due to changes in MPSERS.

Capital Asset and Debt Administration

Capital Asset

At June 30, 2018, the School District had $6.9 million invested in a broad range of capital assets, including land, buildings, furniture, and equipment. This amount represents a net decrease (including additions and disposals) of approximately $157,937 or 2.23 percent, from last year.

	2018	2017
Land and Improvements	$ 2,454,499	$ 2,454,499
Buildings and Improvements	12,678,629	12,510,597
Buses and Other Vehicles	409,229	409,229
Furniture and Equipment	1,092,928	940,026
Total Capital Assets	16,635,285	16,314,351
Less Accumulated Depreciation	(9,705,292)	(9,226,421)
Net Capital Assets	$ 6,929,993	$ 7,087,930

Debt

At the end of this year, the School District had $0.9 million in bonds and loans outstanding versus $1.5 million in the previous year - a decrease of 41.19 percent. Debt consisted of the following:

	2018	2017
General Obligation Bonds	$ 825,000	$ 1,430,000
Bus Loans	49,277	56,738
	$ 874,277	$ 1,486,738

The School District's general obligation bond rating continues to be equivalent to the State's credit rating. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit. The School District's outstanding unqualified general obligation debt of $0.9 million is significantly below the statutorily imposed limit.

Economic Factors and Next Year's Budgets and Rates

The elected officials and administration considered many factors when setting the School District's 2017-2018 fiscal year budget. The two most important factors are the student count and the amount of revenue that the School District will receive per pupil. During the 2011-12 school year, the School District opened the Virtual High School. If the School District is able to maintain at least the same level of enrollment in this program as last year, it should help offset the decline in enrollment at the elementary school. The birth rate is down in Michigan, and both the State and the Jackson County unemployment rates are having a negative impact on the School District as well. The other budget impact is our per-pupil allocation. The state foundation revenue is determined by multiplying the blended student count (using two separate count days) by the per student foundation allocation. The per-pupil allocation in 2008-2009 was $7,316. Since then, the School District has had several consecutive years of budget cuts, with some ability to partially restore funding through federal funds that were received in 2009-2011. In 2011-2012, the School District had some carry-over funds that it was able to use; however, all of these funding sources have expired. The 2017-2018 per-pupil allocation was $7,511.

Additionally, staff has been required to pay 20% of the cost of health care. This has shifted some of the rising insurance costs to the employee. Changes have also been made in carriers, increased deductibles and co-pays; all in an attempt to reduce the cost of health care. All insured employees were covered through the Jackson County Health Consortium again in the 2017-2018 school year. The largest cost increase that the School District has experienced is the rising cost of the Michigan Public School Employee Retirement System or MPSERS. The Legislature has passed changes that are designed to limit future increases in the amount that School Districts are contributing into the system. The biggest unknown for the 2018-2019 school year is the fall enrollment number. After the final number is known, the 2018-2019 budget will need to be revised. With the spring student count of just under 1,120 students, the budget was developed with an anticipated enrollment of 1,110 students.

Prior to 2011, the School District's revenue was dependent on the health of the state's School Aid Fund. If there was a surplus in the state School Aid Fund, School Districts received increases in their per pupil allocation. If the School Aid Fund was not generating adequate funding to meet their revenue obligations, local School Districts could receive mid-year budget reductions or a proration. Now that the School Aid Fund has been tapped by the legislature to help balance the state General Fund, local School District funding is even more precarious. The state's long-term commitment to local School Districts is uncertain at best, and budgeting is more challenging as costs continue to rise and revenue continues to decline.

Contacting the School District's Financial Management

This financial report is designed to provide the School District's citizens, taxpayers, customers, investors and creditors of the Hanover-Horton School District with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Manager, 10400 Moscow Road, Horton, Michigan 49246.

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET POSITION

JUNE 30, 2018

		Governmental Activities
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$	2,314,864
Due From Other Governmental Units		1,604,984
Other Current Assets		20,643
TOTAL CURRENT ASSETS		3,940,491
NON-CURRENT ASSETS		
Capital Assets, Net		6,929,993
TOTAL ASSETS		10,870,484
DEFERRED OUTFLOWS OF RESOURCES		
Pension		3,679,667
OPEB		301,941
TOTAL DEFERRED OUTFLOWS OF RESOURCES		3,981,608
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$	14,852,092
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable	$	21,314
Accrued Salaries and Expenses		1,161,673
Accrued Interest		2,866
Bonds and Loans Payable, Due within One Year		1,672,667
TOTAL CURRENT LIABILITIES		2,858,520
NON-CURRENT LIABILITIES		
Bonds Payable		570,000
Loans Payable		41,610
Compensated Absences and Severance Pay		43,043
Net Pension Liability		16,719,211
OPEB Liability		5,715,224
TOTAL NON-CURRENT LIABILITIES		23,089,088
TOTAL LIABILITIES		25,947,608
DEFERRED INFLOWS OF RESOURCES		
Pension		2,187,846
OPEB		193,216
TOTAL DEFERRED INFLOWS OF RESOURCES		2,381,062
NET POSITION		
Net Investment in Capital Assets		4,645,716
Restricted for Debt Service		432,988
Restricted for Food Service		84,692
Restricted for Sinking Fund		332,344
Restricted for Capital Projects		58,037
Unrestricted		(19,030,355)
TOTAL NET POSITION		(13,476,578)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	$	14,852,092

See Accompanying Notes to Financial Statements

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2018

	Expenses	Program Revenue: Charges For Services	Program Revenue: Operating Grants	Governmental Activities: Net (Expense) Revenue and Changes in Net Position
FUNCTIONS/PROGRAMS				
Governmental Activities				
Instruction	$ 6,585,598	$ 1,875	$ 595,993	$ (5,987,730)
Support Services	3,291,115	438,926	139,826	(2,712,363)
Food Services	457,933	205,191	271,388	18,646
Community Services	6,236	-	-	(6,236)
Athletics	294,910	65,171	-	(229,739)
Interest on Long-Term Debt	63,814	-	-	(63,814)
Depreciation (Unallocated)	478,871	-	-	(478,871)
Total Governmental Activities	11,178,477	711,163	1,007,207	(9,460,107)
General Revenue				
Taxes				
Property Taxes, Levied for General Operations				1,119,022
Property Taxes, Levied for Debt Service				62,357
Property Taxes, Levied for Sinking Fund				201,072
State of Michigan Aid, Unrestricted				7,388,340
Interest Earnings				16,843
Other				1,142,887
Total General Revenue				9,930,521
CHANGE IN NET POSITION				470,414
NET POSITION - BEGINNING OF YEAR				(13,946,992)
NET POSITION - END OF YEAR				$ (13,476,578)

BALANCE SHEET

JUNE 30, 2018

	General	Food Service	Other Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Cash and Investments	$ 1,699,775	$ 124,064	$ 491,025	$ 2,314,864
Accounts Receivable	169	-	-	169
Due from Other Governmental Units	1,604,984	-	-	1,604,984
Due from Other Funds	50,575	-	332,344	382,919
Inventories	-	19,508	-	19,508
Prepaid Expenditures	836	130	-	966
TOTAL ASSETS	$ 3,356,339	$ 143,702	$ 823,369	$ 4,323,410
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts Payable	$ 12,879	$ 8,435	$ -	$ 21,314
Accrued Salaries and Withholdings	1,161,673	-	-	1,161,673
Due to Other Funds	332,344	50,575	-	382,919
Short-Term Loans	1,200,000	-	-	1,200,000
Deferred Revenue	-	-	-	-
TOTAL LIABILITIES	2,706,896	59,010	-	2,765,906
FUND BALANCES				
Non-spendable	836	19,638	-	20,474
Restricted	27,093	65,054	823,369	915,516
Committed	-	-	-	-
Assigned	149,463	-	-	149,463
Unrestricted	472,051	-	-	472,051
TOTAL FUND BALANCES	649,443	84,692	823,369	1,557,504
TOTAL LIABILITIES AND FUND BALANCES	$ 3,356,339	$ 143,702	$ 823,369	$ 4,323,410

TOTAL GOVERNMENTAL FUND BALANCES	$ 1,557,504
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources, and are not reported in the funds:	
Cost of the Capital Assets	16,635,285
Accumulated Depreciation	(9,705,292)
	6,929,993
Long-term liabilities are not due and payable in the current period and are not reported in the fund:	
Bonds Payable	(1,035,000)
Loans Payable	(49,277)
Compensated Absences	(43,043)
Net Pension Liability	(16,719,211)
OPEB Liability	(5,715,224)
Accrued interest is not included as a liability in governmental funds	(2,866)
Deferred Outflows of Resources are not included in governmental funds	3,981,608
Deferred Inflows of Resources are not included in governmental funds	(2,381,062)
NET POSITION OF GOVERNMENTAL ACTIVITIES	$ (13,476,578)

STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES

YEAR ENDED JUNE 30, 2018

	General	Food Service	Other Non-Major Governmental Funds	Total Governmental Funds
REVENUE				
Local Sources	$ 1,257,649	$ 205,191	$ 531,118	$ 1,993,958
Inter-District Sources	438,926	-	-	438,926
State Sources	8,794,793	18,950	-	8,813,743
Federal Sources	149,826	252,438	-	402,264
Other Sources	-	-	-	-
TOTAL REVENUE	10,641,194	476,579	531,118	11,648,891
EXPENDITURES				
Instruction	6,585,598	-	-	6,585,598
Supporting Services	3,509,085	457,933	-	3,967,018
Athletic Activities	294,910	-	-	294,910
Community Services	6,236	-	-	6,236
Debt Service	11,979	-	701,390	713,369
Capital Outlay	21,344	-	360,245	381,589
TOTAL EXPENDITURES	10,429,152	457,933	1,061,635	11,948,720
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	212,042	18,646	(530,517)	(299,829)
OTHER FINANCING SOURCES (USES)				
Indirect costs	34,449	(34,449)	-	-
Loan Proceeds	-	-	-	-
Prior Period Adjustment	(5,311)	-	-	(5,311)
Transfers In (Out)	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	29,138	(34,449)	-	(5,311)
NET CHANGE IN FUND BALANCES	241,180	(15,803)	(530,517)	(305,140)
FUND BALANCES - BEGINNING OF YEAR	408,263	100,495	1,353,886	1,862,644
FUND BALANCES - END OF YEAR	$ 649,443	$ 84,692	$ 823,369	$ 1,557,504

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

YEAR ENDED JUNE 30, 2018

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS		$ (305,140)
Amounts reported for governmental activities in the statement of activities are different because:		
- Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation.		
Depreciation Expense	(478,871)	
Capital Outlay	320,934	
		(157,937)
- Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid.		7,456
- Deferred outflows of resources are recorded in the statement of net position but not in the governmental funds.		1,358,923
- Deferred inflows of resources are recorded in the statement of net position but not in the governmental funds.		(1,126,089)
- Loan proceeds are a revenue in the governmental funds, but not in the statement of activities (where it increases long-term debt).		-
- Repayment of note and bond principal are an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt).		652,461
- Compensated absences are included in expenditures in the statement of activities but not in the governmental funds.		(2,200)
- Net Pension Liability is recorded in the statement of net position but not in the governmental funds.		(270,131)
- Net OPEB Liability is recorded in the statement of net position but not in the governmental funds.		313,071
CHANGES IN NET POSITION OF GOVERNMENTAL ACTIVITIES		$ 470,414

See Accompanying Notes to Financial Statements

STATEMENT OF NET POSITION

JUNE 30, 2018

ASSETS		
Cash and Cash Equivalents	$	270,503
Accounts Receivable		-
TOTAL ASSETS	$	270,503
LIABILITIES		
Due to Others	$	-
Due to Student Groups		270,503
TOTAL LIABILITIES	$	270,503
NET POSITION	$	-

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the School District conform to United States generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant accounting policies.

A. REPORTING ENTITY

Hanover-Horton School District is located in Jackson County, Michigan. The School District is a K through 12 system. The School District is governed by a School Board consisting of seven Board members, all of whom are elected by School District residents.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate, component units of the School District. Based on the application of the criteria, the School District does not contain any component units.

B. BASIS OF PRESENTATION

District-Wide and Fund Financial Statements

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

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

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

District-Wide Statements

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. BASIS OF PRESENTATION (CONTINUED)

District-Wide Statements (Continued)

As a general rule, the effect of inter-fund activity has been eliminated from the District-Wide financial statements.

Fund Based Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if it is collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and severance pay, are recorded only when payment is due.

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

The fiduciary fund statement is also reported using the economic resources measurement focus and the accrual basis of accounting.

GOVERNMENTAL FUNDS

<u>General Fund</u>

The General Fund is the general operating fund of the School District. It is used to account for all financial resources except those required to be accounted for in another fund.

<u>Special Revenue Funds</u>

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than Building and Site Funds) that are legally restricted to expenditures for specified purposes. The Special Revenue Fund maintained by the School District is the Food Service Fund.

<u>Debt Retirement Funds</u>

These funds are used to account for the accumulation of resources for, and for the payment of, general long-term debt principal, interest, and related costs. Debt Retirement Funds maintained by the School District are to retire outstanding 2018 bonded indebtedness, 2009 refunding, and 2002 bonded indebtedness.

<u>Capital Project Funds</u>

Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities. The Capital Project Funds include capital project activities funded with bonds issued after May 1, 1994. For this capital project, the School District has complied with the applicable provisions of 1351a of the Revised School Code.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. BASIS OF PRESENTATION (CONTINUED)

Fund Based Statements (Continued)

GOVERNMENTAL FUNDS (CONTINUED)

Sinking Fund

Sinking Funds are used to account for tax revenue specifically collected for facility improvements and repairs.

FIDUCIARY FUNDS

Agency Fund

The Agency Fund is used to account for assets held by the School as an agent for student clubs and organizations. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations.

C. BUDGETS AND BUDGETARY ACCOUNTING

The General Fund, Special Revenue Funds, and Debt Retirement Funds are under formal budgetary control. Budgets are adopted on the modified accrual basis of accounting. Amendments are by action of the Board.

P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the School's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the School for these budgetary funds were adopted at the functional level.

D. PROPERTY TAXES

Property taxes are attached as an enforceable lien on property as of January 1. Taxes are levied and payable on December 1. The School District collects its taxes through the local School District treasurers. Settlement of the delinquent real property taxes is funded by Jackson and Hillsdale Counties. The School District recognizes property tax revenue in the year of levy except for delinquent personal property taxes, which are recorded as revenue when received.

E. INVENTORIES

Inventories are accounted for at cost on a first-in, first-out basis of accounting with the exception of USDA Commodities that are recorded at market value. Inventory consists of expendable supplies held for consumption and USDA Commodities.

F. CASH EQUIVALENTS

The School District considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. FINANCIAL INSTRUMENTS

The School does not require collateral to support financial instruments subject to credit risk.

H. SHORT-TERM INTERFUND RECEIVABLES AND PAYABLES

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as “due from other funds” or “due to other funds” on the balance sheet.

I. STATE CATEGORICAL REVENUE

The School District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose.

J. EQUITY

Net Position

Net position represents the difference between assets and deferred outflow of resources, less liabilities and deferred inflow of resources. The School District reports three categories of net position, as follows: (1) Net investment in capital assets consists of net capital assets reduced by outstanding balances of any related debt obligations and deferred inflow of resources attributable to the acquisition, construction, or improvement of those assets, and increases by balances of deferred outflow of resources related to those assets; (2) Restricted net position is considered restricted if its use is constrained to a particular purpose. Restrictions are imposed by external organizations, such as federal or state laws or buyers of the School District’s debt. Restricted net position is reduced by liabilities and deferred inflow of resources related to the restricted assets; (3) Unrestricted net position consists of all other net position that does not meet the definition of the above components and is available for general use by the School District.

Fund Balance

In the fund financial statements, governmental funds report the following components of fund balance:

- Non-spendable - Amounts that are not in spendable form or are legally or contractually required to be maintained intact.
- Restricted - Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose.
- Committed - Amounts that have been formally set aside by the board for use for specific purposes. Commitments are made and can be rescinded only via resolution of the board.
- Assigned - Intent to spend resources on specific purposes expressed by the board.
- Unassigned - Balances that do not otherwise fall into one of the above categories.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. CAPITAL ASSETS

Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental column in the government-wide financial statements. The government defines capital assets as assets with an initial individual cost of more than $5,000 and an estimated useful life in excess of 1 year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value materially or extend asset life are not capitalized. The School District does not have infrastructure type assets.

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

Building and additions	15-50 years
Buses and other vehicles	5-10 years
Furniture and other equipment	5-20 years

L. LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

M. ESTIMATES

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

N. DEFERRED OUTFLOW/INFLOW 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 future periods and so will not be recognized as outflows of resources (expenses) until then.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. DEFERRED OUTFLOW/INFLOW OF RESOURCES (CONTINUED)

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as inflows of resources (revenue) until that time. The School District has only one type of item, which arises only under a modified accrual basis of accounting, which qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet.

O. NET PENSION LIABILITY

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

P. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

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

NOTE 2 - DEPOSITS WITH FINANCIAL INSTITUTIONS

LEGAL OR CONTRACTUAL PROVISIONS FOR DEPOSITS AND INVESTMENTS

The Michigan Political Subdivisions Act No. 20, Public Acts of 1943, as amended by Act No. 217, Public Acts of 1982, states the Department, by resolution, may authorize investment of surplus funds as follows:

1. In bonds and other direct obligations of the United States or an agency or instrumentality of the United States.

2. In certificates of deposit, savings accounts, or depository receipts of a bank, which is a member of the Federal Deposit Insurance Corporation; or a savings and loan association, which is a member of the Federal Savings and Loan Insurance Corporation; or a credit union, which is insured by the National Credit Union Association; but only if the bank, savings and loan association, or credit union complies with Subsection (2).

3. In commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and which matures not more than 270 days after the date of purchase. Not more than 50% of any fund may be invested in commercial paper at any time.

NOTE 2 - DEPOSITS WITH FINANCIAL INSTITUTIONS (CONTINUED)

LEGAL OR CONTRACTUAL PROVISIONS FOR DEPOSITS AND INVESTMENTS (CONTINUED)

4. In United States government or Federal agency obligation repurchase agreements.
5. In bankers' acceptances of United States banks.
6. In mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The School District is in compliance with State law regarding their cash deposits.

The School District maintains its cash deposits in two financial institutions. At June 30, 2018, the book value of the School District's deposits was $742,193 and the bank balance was $904,898. Of the bank balance, $283,640 was covered by federal depository insurance and $458,553 was uninsured and uncollateralized.

Investments consist of external pooled funds and are stated at Net Asset Value. See footnote Fair Value Measurement for further details.

Total cash and investments as of June 30, 2018, consist of:

Petty Cash	$	844
Deposits with Financial Institutions		741,349
Investments		1,843,174
	$	2,585,367

Custodial Credit Risk of Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District does have a policy for custodial credit risk, requiring diligence and prudence of investment officials when considering investments in obligations other than those of an agency of the United States. At year end, the School District had no investment securities that were uninsured and unregistered with securities held by the counterparty or by its trust department or agent but not in the School District's name.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The School District's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the School District had no such investments.

Concentration of Credit Risk

The School District does limit the amount that it may invest in any one issuer. The School District currently has no one investment which exceeds 20 percent of its total investments.

Foreign Currency Risk

Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. The School District restricts the amount of investments in foreign currency and, thus, at year end had no securities subject to foreign currency risk.

NOTE 3 - ACCUMULATED FUND DEFICITS

There were no accumulated fund deficits at June 30, 2018.

NOTE 4 - BUDGETARY ACCOUNTING

During the year ended June 30, 2018, the School District incurred no expenditures that were in excess of the amounts budgeted.

NOTE 5 - COMPENSATED ABSENCES

The School's policy is not to compensate employees for vacation time not used during the school year. Accumulated sick pay policies are as follows:

Teachers

Credited with 11 sick leave days per year; maximum accumulation of 130 days allowed; amounts over 130 days not used are paid at a rate of $65 per day. A retirement leave benefit of $70 per day (maximum $980) is paid to teachers, employed by the School District for ten years or more, retiring from the School District.

Support Personnel

Credited with one day per month for months worked up to 10 per year; maximum accumulation of 120 days allowed; amounts over 120 days not used are paid at a rate of 50% of the employee's daily rate. A retirement leave benefit of 50% of the daily rate (maximum $1,500) is paid upon retirement from the School District.

NOTE 6 - RELATED PARTY ACTIVITY

There was no related party activity in the year ended June 30, 2018.

NOTE 7 - COMPONENTS OF FUND BALANCE

The School District had the following components of fund balance at June 30, 2018:

A. $19,638 of fund balance in the Special Revenue - Food Service Fund is non-spendable. This amount represents inventory supplies and USDA commodity inventories on hand at year-end as well as prepaid expenses and is not available for current appropriations and expenditures of the Food Service Fund.

B. $915,516 of fund balance is restricted for the specific purpose for which it was received. At June 30, 2018, $65,054 was restricted for Food Service, $27,093 was restricted for At Risk, $432,988 was restricted for Debt Service, $332,344 was restricted for the Sinking Fund, and $58,037 was restricted for Capital Projects.

C. $149,463 of the General Fund balance is assigned for the deficit projected in the District's 2018-2019 budget.

D. The balance of the Fund Balance is unassigned and is available to fund future School operations. The June 30, 2018, Unassigned General Fund Balance of $472,051 compares to June 30, 2017, unassigned General Fund Balance of $100,931.

NOTE 8 - INVENTORY

There is $19,508 of inventory in the Special Revenue Fund - Food Service.

NOTE 9 - DUE FROM OTHER GOVERNMENTAL UNITS

The Due from Other Governmental Units at June 30, 2018, is comprised of the following:

General Fund	
State of Michigan	
State Aid	$ 1,571,876
Title 1	22,771
Title 2A	8,049
Title 4	2,288
	$ 1,604,984

NOTE 10 - INVESTMENTS

Investments at estimated fair value as of June 30, 2018, consist of:

External Investment Pools	$ 1,843,174

Investment income (loss) for the year ended June 30, 2018, consists of:

Interest and Dividends	$ 20,371
Net Realized and Unrealized Gain (Loss)	-
Total	$ 20,371

NOTE 11 - FAIR VALUE MEASUREMENTS

The School District holds investments that are measured at fair value on a recurring basis. Because investing is not a core part of the School District's mission, the School District determines that the disclosures related to these investments only need to be disaggregated by major type.

Investments valued at the net asset value as of June 30, 2018, are:

	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
External Investment Pools	$ 1,843,174	$ -	Unlimited	None

NOTE 11 - FAIR VALUE MEASUREMENTS (CONTINUED)

External investment pools consist of Michigan Liquid Asset Funds and Comerica Bank School Cash Investment Funds. The School District's funds are invested in the Michigan Liquid Asset Funds and the Comerica Bank School Cash Investment Funds trust accounts in accordance with Sections 622, 1221, and 1223 of the School Code. These investment pools are composed entirely of instruments that are legal for direct investment by a school district. These pools are not categorized as to risk because it is not evidenced by securities that the School District owns specifically or can be identified with securities within the liquid asset account. Instead, the funds are held at Net Asset Value (NAV). NAV is determined by each individual pool on a per share basis. Each school district owns a prorata share of each fund, which is held in the name of the funds. There are no restrictions on the redemption of funds from either pool.

NOTE 12 - ACCRUED SALARIES AND FRINGE BENEFITS

Of $601,108 salaries payable at June 30, 2018, $558,724 represents the unpaid portion of teacher contracts for the 2017-18 school year. Of these salaries, there are also fringe benefits payable at year-end totaling $247,459.

NOTE 13 - CAPITAL ASSETS

Capital asset activity of the School District’s Governmental activities was as follows:

	July 1, 2017	Additions	Disposals and Adjustments	June 30, 2018
Assets not being depreciated:				
Land	$ 1,150	$ -	$ -	$ 1,150
Capital assets being depreciated:				
Land Improvements	2,453,349	-	-	2,453,349
Building and Building Improvements	12,510,597	168,032	-	12,678,629
Buses and Other Vehicles	409,229	-	-	409,229
Furniture and Equipment	940,026	152,902	-	1,092,928
Subtotal	16,313,201	320,934	-	16,634,135
Accumulated depreciation:				
Land Improvements	720,399	57,762	-	778,161
Building and Building Improvements	7,458,100	316,296	-	7,774,396
Buses and Other Vehicles	281,292	37,634	-	318,926
Furniture and Equipment	766,630	67,179	-	833,809
Subtotal	9,226,421	478,871	-	9,705,292
Net Capital Assets Being Depreciated	7,086,780	(157,937)	-	6,928,843
Net Capital Assets	$ 7,087,930	$ (157,937)	$ -	$ 6,929,993

Depreciation expense was not charged to activities as the School District considers its assets to impact multiple activities and allocation is not practical.

NOTE 14 - DUE TO/FROM OTHER FUNDS

Due to/due from at June 30, 2018, consisted of the following:

Due To:			Due From:		
General Fund	$	50,575	Food Service	$	50,575
Sinking Fund		332,344	General Fund		332,344
	$	382,919		$	382,919

NOTE 15 - BUS LEASE

On July 30, 2014, the School District entered into a five year lease for school buses with Santander Leasing, LLC. Lease expense for the year ended June 30, 2018, totaled $138,600. On August 24, 2018, the School District restructured this lease resulting in an extension through the year ended June 30, 2022. Future minimum payments are as follows:

Year Ending June 30,		
2019	$	138,600
2020		138,600
2021		138,600
2022		70,656
	$	486,456

NOTE 16 - SINKING FUND

The School District has established a sinking fund. For this fund, authorized prior to March 16, 2018, the school district has complied with the applicable provisions of Section 1212 of the Revised School Code. Taxpayers are funding the Sinking Fund with 1 mill of property taxes for the years 2016-2021. This money will be used for facility repairs and improvements. In the year ended June 30, 2018, $201,881 was collected and $195,765 was spent on facility improvements.

NOTE 17 - SHORT TERM LOAN

In August 2016, the School District borrowed $1,200,000 from County National Bank in a State Aid Note. This note matures August 2019, and bears interest at 1.05%. The balance due at June 30, 2018, was $1,200,000.

NOTE 18 - LONG TERM DEBT

Long-Term Debt is comprised of bonded debt and bus notes payable. During the year ended June 30, 2018, long-term debt changed as follows:

Bond Issue	July 1, 2017	Additional Debt	2017-2018 Payments	June 30, 2018
2009 Refunding Debt	$ 1,255,000	$ -	$ 430,000	$ 825,000
2002 Debt	175,000	-	175,000	-
Equipment Loan	56,738	-	7,461	49,277
2017 Debt	250,000	-	40,000	210,000
	$ 1,736,738	$ -	$ 652,461	$ 1,084,277

Future minimum payments are as follows:

	Equipment Loan	2009 Refunding Debt	2017 Debt	Total
Year Ending June 30,				
2019	$ 7,667	$ 420,000	$ 45,000	$ 472,667
2020	7,878	405,000	50,000	462,878
2021	8,094	-	55,000	63,094
2022	8,317	-	60,000	68,317
2023	8,545	-	-	8,545
Thereafter	8,776	-	-	8,776
	$ 49,277	$ 825,000	$ 210,000	$ 1,084,277

A. 2009 REFUNDING BONDS

The bonds are dated February 25, 2009 with principal due each May 1 and interest due each May 1 and November 1 beginning May 1, 2010 and ending May 1, 2020. The original amount of the bonds was $4,940,000. Interest rates vary from 3% to 4%. The proceeds from these bonds were used to refund 1999 Building and Site Bonds. The remaining bonds payable at June 30, 2018, were $825,000.

B. 2002 BONDS

The bonds are dated June 1, 2002 with principal due each May 1 and interest due each May 1 and November 1, beginning November 1, 2002 and ending May 1, 2018. The original amount of the bonds was $2,005,000. Interest rates vary from 3.0% to 4.650%. The proceeds of the bonds were used for athletic facility improvements. Total amount outstanding at June 30, 2018, was $0.

NOTE 18 - LONG TERM DEBT (CONTINUED)

C. EQUIPMENT LOAN

The School District borrowed $64,000 from Hillsdale County National Bank in 2016 for the purchase of equipment. Annual payments of $9,022 (including interest at 2.75%) are due from 2017 through 2024. The balance due at June 30, 2018, was $49,277.

D. 2017 BONDS

The bonds are dated June 28, 2017 with principal due each May 1 and interest due each May 1 and November 1, beginning May 1, 2018 and ending May 1, 2022. The original amount of the bonds was $250,000. Interest rates vary from 1.0% to 1.5%. The proceeds of the bonds were used for school building and technology improvements. Total amount outstanding at June 30, 2018, was $210,000.

NOTE 19 - RISK MANAGEMENT AND LITIGATION

The School District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For the past several years the School District has obtained coverage from commercial insurance companies and has effectively managed risk through various employee education and prevention programs. All risk management activities are accounted for in the General Fund. Expenditures and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. At June 30, 2017, no claims exist, and no provision has been entered into the accounting records.

NOTE 20 - NET PENSION LIABILITY

PLAN DESCRIPTION

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

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

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

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

NOTE 20 - NET PENSION LIABILITY (CONTINUED)

BENEFITS PROVIDED

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

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

CONTRIBUTIONS

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

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

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

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

Required contributions to the pension plan from the School District were $1,513,277 for the year ended September 30, 2017.

NOTE 20 - NET PENSION LIABILITY (CONTINUED)

LONG-TERM EXPECTED RETURN ON PLAN ASSETS

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

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

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

RATE OF RETURN

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

DISCOUNT RATE

A discount rate of 7.5% was used to measure the total pension liability (7.0% for the Pension Plus plan, a hybrid plan provided through non-university employers only). This discount rate was based on the long-term expected rate of return on pension plan investments of 7.5% (7.0% for the Pension Plus plan). The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

NOTE 20 - NET PENSION LIABILITY (CONTINUED)

SENSITIVITY OF THE NET PENSION LIABILITY TO CHANGES IN DISCOUNT RATE

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

1% Decrease (Non-Hybrid/Hybrid) 6.5%/6.0%	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid) 7.5%/7.0%	1% Increase (Non-Hybrid/Hybrid) 8.5%/8.0%
$ 21,779,571	$ 16,719,211	$ 12,458,711

ACTUARIAL ASSUMPTIONS

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

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions	
Valuation Date:	September 30, 2015
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate	3.5%
Investment Rate of Return:	
MIP and Basic Plans (Non-Hybrid)	7.5%
Pension Plus Plan (Hybrid)	7.0%
Projected Salary Increases	3.5-12.3%, including wage inflation at 3.5%
Cost-of-Living Pension Adjustments	3% Annual Non-Compounded for MIP Members
Mortality:	RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

NOTE 20 - NET PENSION LIABILITY (CONTINUED)

ACTUARIAL VALUATIONS AND ASSUMPTIONS (CONTINUED)

NOTES:

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

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

Recognition period for assets in years is 5.0000.

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

PENSION LIABILITIES, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES, AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS

At June 30, 2018, the School District reported a liability of $16,719,211 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2016. The School District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2017, the School District's proportion was 0.06452 percent, which was a decrease of 0.00141 percent from its proportion measured as of September 30, 2016.

For the year ended June 30, 2017, the School District recognized pension expense of $1,504,893. At June 30, 2018, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	$ 145,301	$ 82,038
Changes in Assumptions	1,831,722	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	799,288
Changes in Proportion and Differences between Reporting Unit Contributions and Proportionate share of Contributions	16,047	645,622
Reporting Unit Contributions Subsequent to the Measurement Date	1,686,597	660,898
Total	$ 3,679,667	$ 2,187,846

NOTE 20 - NET PENSION LIABILITY (CONTINUED)

PENSION LIABILITIES, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES, AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS (CONTINUED)

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

Plan Year Ended September 30:		
2018	$	76,435
2019		363,795
2020		100,368
2021		(74,476)
	$	466,122

MPSERS FIDUCIARY NET POSITION

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

NOTE 21 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

PLAN DESCRIPTION

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

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

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

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

NOTE 21 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

BENEFITS PROVIDED

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

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

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

CONTRIBUTIONS

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

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

NOTE 21 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

CONTRIBUTIONS (CONTINUED)

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

OPEB Contribution Rates		
Benefit Structure	Member	Employer
Premium Subsidy	3.00%	5.91%
Personal Healthcare Fund (PHF)	0.00%	5.69%

Required contributions to the pension plan from the School District were $502,462 for the year ended September 30, 2017.

LONG-TERM EXPECTED RETURN ON PLAN ASSETS

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

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

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

NOTE 21 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

RATE OF RETURN

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

DISCOUNT RATE

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

SENSITIVITY OF THE NET PENSION LIABILITY TO CHANGES IN DISCOUNT RATE

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

1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
$ 6,694,179	$ 5,715,224	$ 4,884,397

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.

NOTE 21 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

ACTUARIAL ASSUMPTIONS (CONTINUED)

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions	
Valuation Date:	September 30, 2015
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	3.5%
Investment Rate of Return:	7.5%
Projected Salary Increases:	3.5-12.3%, including wage inflation at 3.5%
Healthcare Cost Trend Rate:	7.5% Year 1 graded to 3.5% Year 12
Mortality:	RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.
Other Assumptions:	
Opt Out Assumptions	21% of eligible participants hired before July 1, 2008 and 30% of those hired after June 30, 2008 are assumed to opt out of the retiree health plan.
Survivor Coverage	80% of male retirees and 67% of female retirees are assumed to have coverages continuing after the retiree's death.
Coverage Election at Retirement	75% of male and 60% of female future retirees are assumed to elect coverage for 1 or more dependents.

NOTES:

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

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

NOTE 21 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

ACTUARIAL ASSUMPTIONS (CONTINUED)

NOTES (CONTINUED):

Recognition period for assets in years is 5.0000.

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

OPEB LIABILITIES, OPEB EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES, AND DEFERRED INFLOWS OF RESOURCES RELATED TO OPEB

At June 30, 2018, the School District reported a liability of $5,715,224 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2016. The School District's proportion of the net OPEB liability was determined by dividing each employer's statutorily required OPEB contributions to the system during the measurement period by the percent of OPEB contributions required from all applicable employers during the measurement period. At September 30, 2017, School District's proportion was .06454 percent, which was an increase of 0.00% percent from its proportion measured as of September 30, 2016.

For the year ended June 30, 2017, the School District recognized OPEB expense of $382,277. At June 30, 2018, the School District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	$ -	$ 60,850
Changes in Assumptions	-	-
Net Difference Between Projected and Actual Earnings on OPEB Plan Investments	-	132,366
Changes in Proportion and Differences between Reporting Unit Contributions and Proportionate share of Contributions	1,019	-
Reporting Unit Contributions Subsequent to the Measurement Date	300,922	-
Total	$ 301,941	$ 193,216

NOTE 21 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

OPEB LIABILITIES, OPEB EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES, AND DEFERRED INFLOWS OF RESOURCES RELATED TO OPEB (CONTINUED)

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

Plan Year Ended September 30:		
2018	$	(46,463)
2019		(46,463)
2020		(46,463)
2021		(46,463)
2022		(6,345)
	$	(192,197)

OPEB FIDUCIARY NET POSITION

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

NOTE 22 - TAX ABATEMENTS

Local governments from whom the School District collects tax revenues entered into property tax abatement agreements with local businesses under the Plan Rehabilitation and Industrial Development Districts Act, (known as the Industrial Facilities Exemption) PA 198 of 1974, as amended, provides a tax incentive to manufacturers to enable renovation and expansion of aging facilities, assist in the building of new facilities, and to promote the establishment of high tech facilities. An Industrial Facilities Exemption (IFE) certificate entitles the facility to exemption for ad valorem real and/or personal property taxes for a term of 1-12 years as determined by the local unit of government. The IFT of a new plant and non-industrial property, such as some high-tech personal property, is computed at half the local property tax millage rate. This amounts to a reduction in property taxes of approximately 50%.

For the year ended June 30, 2018, the School District abated property tax revenues totaling $18,139 under this program.

NOTE 23 - ADOPTION OF NEW ACCOUNTING POLICIES

Effective July 1, 2017, the School District adopted the provisions of the following accounting pronouncement. In June 2015, the GASB issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Statement No. 75 requires governments to report information about postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI).

June 30, 2017, Net Position - End of Year	$ (8,106,706)
GASB 75 Adjustment	(5,840,286)
July 1, 2017, Net Position - Beginning of Year	$ (13,946,992)

REQUIRED SUPPLEMENTAL INFORMATION

SCHEDULE OF THE REPORTING UNIT'S PROPORTIONATE SHARE OF NET PENSION LIABILITY
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN
LAST 10 FISCAL YEARS

AMOUNTS DETERMINED AS OF 9/30 OF EACH FISCAL YEAR

	2017	2016	2015	2014
A. Reporting Unit's Proportion of Net Pension Liability (%)	0.06452%	0.06593%	0.06811%	0.06747%
B. Reporting Unit's Proportionate Share of Net Pension Liability	$16,719,211	$16,449,080	$16,636,044	$15,140,274
C. Reporting Unit's Covered-Employee Payroll	$ 5,435,731	$ 5,335,135	$ 5,304,335	$ 5,774,396
D. Reporting Unit's Proportionate Share of Net Pension Liability as a Percentage of Its Covered-Employee Payroll	307.58%	308.32%	313.63%	262.20%
E. Plan Fiduciary Net Position as a Percentage of Total Pension Liability	64.21%	63.27%	63.17%	66.20%

This schedule is built prospectively. Until a full 10-year trend is compiled, the schedule will show information for those years for which data is available, beginning with fiscal year end June 30, 2015.

SCHEDULE OF REPORTING UNIT'S CONTRIBUTIONS
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN
LAST 10 FISCAL YEARS

AMOUNTS DETERMINED AS OF 6/30 OF EACH FISCAL YEAR

	2018	2017	2016	2015
A. Statutorily Required Contributions	$1,513,277	$1,480,500	$1,313,943	$1,456,714
B. Contributions in Relation to Statutorily Required Contributions	2,026,648	1,831,522	1,351,832	1,456,714
C. Contribution Deficiency (Excess)	$ (513,371)	$ (351,022)	$ (37,889)	$ -
D. Reporting Unit's Covered-Employee Payroll	$5,435,731	$5,335,135	$5,304,335	$5,774,396
E. Contributions as a Percentage of Covered-Employee Payroll	37.28%	34.33%	25.49%	25.23%

This schedule is built prospectively. Until a full 10-year trend is compiled, the schedule will show information for those years for which data is available, beginning with fiscal year end June 30, 2015.

Changes of Benefit Terms

There were no changes of benefit terms in 2017.

Changes of Assumptions

There were no changes of benefit assumptions in 2017.

SCHEDULE OF THE REPORTING UNIT'S PROPORTIONATE SHARE OF NET OPEB LIABILITY
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN
LAST 10 FISCAL YEARS

AMOUNTS DETERMINED AS OF 9/30 OF EACH FISCAL YEAR

	2017
A. Reporting Unit's Proportion of Net OPEB Liability (%)	0.06454%
B. Reporting Unit's Proportionate Share of Net OPEB Liability	$ 5,715,224
C. Reporting Unit's Covered-Employee Payroll	$ 5,435,731
D. Reporting Unit's Proportionate Share of Net OPEB Liability as a Percentage of Its Covered-Employee Payroll	105.14%
E. Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	36.39%

This schedule is built prospectively. Until a full 10-year trend is compiled, the schedule will show information for those years for which data is available, beginning with fiscal year end June 30, 2018.

SCHEDULE OF REPORTING UNIT'S CONTRIBUTIONS
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN
LAST 10 FISCAL YEARS

AMOUNTS DETERMINED AS OF 6/30 OF EACH FISCAL YEAR

	2018
A. Statutorily Required Contributions	$ 502,642
B. Contributions in Relation to Statutorily Required Contributions	644,555
C. Contribution Deficiency (Excess)	$ (141,913)
D. Reporting Unit's Covered-Employee Payroll	$5,435,731
E. Contributions as a Percentage of Covered-Employee Payroll	11.86%

This schedule is built prospectively. Until a full 10-year trend is compiled, the schedule will show information for those years for which data is available, beginning with fiscal year end June 30, 2018.

Changes of Benefit Terms

There were no changes of benefit terms in 2017.

Changes of Assumptions

There were no changes of benefit assumptions in 2017.

HANOVER-HORTON SCHOOL DISTRICT

GENERAL FUND

YEAR ENDED JUNE 30, 2018

	Budgeted Amounts		Actual	Variance
	Original	Final	(Budgetary Basis)	
REVENUE				
Local Sources	$ 1,219,748	$ 1,265,982	$ 1,257,649	$ (8,333)
Inter-District Sources	422,832	422,834	438,926	16,092
State Sources	8,434,506	8,791,665	8,794,793	3,128
Federal Sources	195,304	144,757	149,826	5,069
Other Sources	31,000	31,000	34,449	3,449
TOTAL REVENUE	10,303,390	10,656,238	10,675,643	19,405
EXPENDITURES				
Instruction				
Basic Programs	5,586,302	5,657,297	5,641,051	16,246
Added Needs	918,090	973,030	944,547	28,483
Supporting Services				
Pupil	550,280	566,465	513,798	52,667
Instructional Staff	11,383	10,000	10,000	-
Administration	1,113,497	1,142,970	1,129,718	13,252
Business Services	1,926,034	1,958,884	1,855,569	103,315
Athletic Activities	308,569	309,396	294,910	14,486
Community Services	5,834	6,478	6,236	242
Capital Outlay	26,167	29,575	21,344	8,231
Debt Service	11,979	11,979	11,979	-
Other Uses	-	5,311	5,311	-
TOTAL EXPENDITURES	10,458,135	10,671,385	10,434,463	236,922
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES AND OTHER USES	(154,745)	(15,147)	241,180	256,327
BUDGETARY FUND BALANCE- July 1, 2017	408,263	408,263	408,263	-
BUDGETARY FUND BALANCE- June 30, 2018	$ 253,518	$ 393,116	$ 649,443	$ 256,327

FOOD SERVICE FUND

YEAR ENDED JUNE 30, 2018

	Budgeted Amounts		Actual	Variance
	Original	Final	(Budgetary Basis)	
REVENUE				
Local Sources	$ 234,827	$ 203,467	$ 205,191	$ 1,724
State Sources	19,357	18,631	18,950	319
Federal Sources	259,235	248,243	252,438	4,195
Other Sources	-	-	-	-
TOTAL REVENUE	513,419	470,341	476,579	6,238
EXPENDITURES				
Instruction				
Basic Programs	-	-	-	-
Added Needs	-	-	-	-
Supporting Services				
Pupil	500,978	457,941	457,933	8
Instructional Staff	-	-	-	-
Administration	-	-	-	-
Business Services	-	-	-	-
Athletic Activities	-	-	-	-
Community Services	-	-	-	-
Capital Outlay	-	-	-	-
Debt Service	-	-	-	-
Other Uses - Operating Transfers	31,000	34,449	34,449	-
TOTAL EXPENDITURES	531,978	492,390	492,382	8
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES AND OTHER USES	(18,559)	(22,049)	(15,803)	6,246
BUDGETARY FUND BALANCE- July 1, 2017	100,495	100,495	100,495	-
BUDGETARY FUND BALANCE- June 30, 2018	$ 81,936	$ 78,446	$ 84,692	$ 6,246

OTHER SUPPLEMENTAL INFORMATION

GENERAL FUND

HANOVER-HORTON SCHOOL DISTRICT

General Fund

COMPARATIVE STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

YEAR ENDED JUNE 30, 2018

	Budget	Actual	Variance Favorable (Unfavorable)	Prior Year Actual
REVENUE				
LOCAL SOURCES				
Current Property Tax Levy	$ 1,106,737	$ 1,105,392	$ (1,345)	$ 1,088,933
Interest and Penalties - Delinquent Taxes	13,462	13,630	168	10,067
Tuition	2,125	1,875	(250)	2,000
Sale of School Property	-	-	-	193
Refunds	16,801	20,002	3,201	15,404
Athletic Revenue	65,171	65,171	-	59,455
Interest Earned	15,000	15,563	563	2,539
Rental of School Facilities	16,080	16,020	(60)	16,080
Transportation	20,000	19,890	(110)	24,380
Kids Club Fees	-	-	-	377
Other	10,606	106	(10,500)	8,147
TOTAL LOCAL SOURCES	1,265,982	1,257,649	(8,333)	1,227,575
INTER-DISTRICT SOURCES				
Career Prep	9,000	9,000	-	9,000
Data Processing Support	29,000	29,689	689	29,648
Special Education	384,834	400,237	15,403	382,614
Tech Readiness Infrastructure	-	-	-	3,433
TOTAL INTER-DISTRICT SOURCES	422,834	438,926	16,092	424,695
STATE SOURCES				
State Aid	7,514,782	7,388,340	(126,442)	7,316,890
Data Collection	28,482	28,493	11	28,727
Special Education	261,791	261,791	-	234,757
At Risk	293,907	293,766	(141)	206,593
Renaissance Zone	10,877	10,877	-	9,423
Literacy Instruction	16,380	16,380	-	10,040
Principal Training	3,483	3,483	-	-
Retirement Stabilization	660,897	790,597	129,700	684,419
Computer Adaptive Test	1,066	1,066	-	-
TOTAL STATE SOURCES	8,791,665	8,794,793	3,128	8,490,849
FEDERAL SOURCES				
Medicaid ADM Outreach	3,500	1,909	(1,591)	3,516
Title I	96,580	103,114	6,534	134,424
Title II - A	31,752	34,574	2,822	41,988
Title IV	10,000	10,000	-	-
McKinney Vento	2,925	229	(2,696)	2,036
TOTAL FEDERAL SOURCES	144,757	149,826	5,069	181,964
TOTAL REVENUE	$ 10,625,238	$ 10,641,194	$ 15,956	$ 10,325,083

COMPARATIVE STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL (CONTINUED)

YEAR ENDED JUNE 30, 2018

	Budget	Actual	Variance Favorable (Unfavorable)	Prior Year Actual
EXPENDITURES				
INSTRUCTION				
BASIC PROGRAMS				
Elementary School	$ 2,582,120	$ 2,567,257	$ 14,863	$ 2,470,586
Middle School	1,316,640	1,332,311	(15,671)	1,262,335
High School	1,748,406	1,734,100	14,306	1,723,787
Summer School	10,131	7,383	2,748	9,076
TOTAL BASIC PROGRAMS	5,657,297	5,641,051	16,246	5,465,784
ADDED NEEDS				
Special Education	849,151	839,878	9,273	778,767
Compensatory Education	123,879	104,669	19,210	128,943
TOTAL ADDED NEEDS	973,030	944,547	28,483	907,710
TOTAL INSTRUCTION	6,630,327	6,585,598	44,729	6,373,494
SUPPORTING SERVICES				
PUPIL				
Guidance	136,209	137,806	(1,597)	132,777
Health Services	26,250	19,032	7,218	22,516
Social Work Services	44,100	35,130	8,970	50,900
Other Pupil Services	246,670	226,239	20,431	190,673
Improvement of Instruction	37,898	22,561	15,337	24,317
Educational Media Services	75,338	73,030	2,308	71,372
TOTAL PUPIL	566,465	513,798	52,667	492,555
INSTRUCTIONAL STAFF				
Supervision and Direction	10,000	10,000	-	11,918
TOTAL INSTRUCTIONAL STAFF	10,000	10,000	-	11,918
ADMINISTRATION				
Board of Education	67,925	58,925	9,000	53,641
Executive Administration	439,342	441,818	(2,476)	424,287
School Administration	635,703	628,975	6,728	622,653
TOTAL ADMINISTRATION	$ 1,142,970	$ 1,129,718	$ 13,252	$ 1,100,581

COMPARATIVE STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL (CONTINUED)

YEAR ENDED JUNE 30, 2018

	Budget	Actual	Variance Favorable (Unfavorable)	Prior Year Actual
EXPENDITURES (CONTINUED)				
SUPPORTING SERVICES (CONTINUED)				
BUSINESS SERVICES				
Operation and Maintenance	$ 1,082,906	$ 1,031,934	$ 50,972	$ 1,025,979
Pupil Transportation	630,045	606,312	23,733	573,141
Technology	143,380	128,470	14,910	119,937
Security	11,664	11,473	191	11,554
Other	75,386	63,973	11,413	53,487
Pupil Accounting	15,503	13,407	2,096	12,892
TOTAL BUSINESS SERVICES	1,958,884	1,855,569	103,315	1,796,990
TOTAL SUPPORTING SERVICES	3,678,319	3,509,085	169,234	3,402,044
ATHLETIC ACTIVITIES	309,396	294,910	14,486	287,708
COMMUNITY SERVICES				
Kids Club	-	-	-	119
Other	6,478	6,236	242	4,257
TOTAL COMMUNITY SERVICES	6,478	6,236	242	4,376
DEBT SERVICE	11,979	11,979	-	8,401
CAPITAL OUTLAY	29,575	21,344	8,231	35,199
TOTAL EXPENDITURES	10,666,074	10,429,152	236,922	10,111,222
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	(40,836)	212,042	252,878	213,861
OTHER FINANCING SOURCES (USES)				
Indirect Costs	31,000	34,449	(3,449)	30,387
Loan Proceeds	-	-	-	-
Prior Period Adjustment	(5,311)	(5,311)	-	(4,553)
Operating Transfers In	-	-	-	-
Operating Transfers (Out)	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	25,689	29,138	(3,449)	25,834
EXCESS OF REVENUE AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	$ (15,147)	241,180	$ 249,429	$ 239,695
FUND BALANCE - JULY 1, 2017		408,263		
FUND BALANCE - JUNE 30, 2018		$ 649,443		

SPECIAL REVENUE FUND

HANOVER-HORTON SCHOOL DISTRICT

COMPARATIVE BALANCE SHEET

JUNE 30, 2018 AND 2017

		2018		2017
ASSETS				
Cash and Investments	$	124,064	$	134,887
Due from Other Governmental Units		-		-
Due from Other Funds		-		-
Prepaid Expenses		130		187
Inventory		19,508		17,805
TOTAL ASSETS	$	143,702	$	152,879
LIABILITIES AND FUND BALANCE				
LIABILITIES				
Accounts Payable	$	8,435	$	6,694
Accrued Salaries		-		-
Accrued Expenses		-		-
Due to Other Funds		50,575		45,690
TOTAL LIABILITIES		59,010		52,384
FUND BALANCE				
Non-Spendable		19,638		17,992
Restricted		65,054		82,503
TOTAL FUND BALANCE		84,692		100,495
TOTAL LIABILITIES AND FUND BALANCE	$	143,702	$	152,879

COMPARATIVE STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

YEAR ENDED JUNE 30, 2018

	Budget	Actual	Variance Favorable (Unfavorable)	Prior Year Actual
REVENUE				
Goods Sold				
Student Meals	$ 110,243	$ 109,947	$ (296)	$ 128,590
Adult Meals	8,541	8,375	(166)	6,841
Ala Carte Meals	68,713	68,609	(104)	65,657
Breakfast	9,649	10,696	1,047	11,090
Catering	1,062	1,635	573	2,081
State Aid	18,631	18,950	319	17,392
Federal Aid	217,325	218,801	1,476	238,399
Federal USDA Commodities in Kind	30,918	33,637	2,719	42,943
Other Income	4,170	4,317	147	6,704
Interest Income	1,089	1,612	523	823
TOTAL REVENUE	470,341	476,579	6,238	520,520
EXPENDITURES				
Salaries	131,009	131,009	-	128,680
Fringe Benefits	77,409	77,408	1	76,035
Dues and Fees	6,996	6,993	3	8,561
Purchased Services	10,939	10,937	2	8,645
Food and Supplies	180,723	180,721	2	208,494
Miscellaneous	-	-	-	118
Contracted Services	50,865	50,865	-	48,775
Capital Outlay	-	-	-	-
TOTAL EXPENDITURES	457,941	457,933	8	479,308
EXCESS REVENUE OVER (UNDER) EXPENDITURES	12,400	18,646	6,246	41,212
OTHER FINANCING SOURCES (USES)				
Indirect Costs	(34,449)	(34,449)	-	(30,387)
Prior Period Adjustment	-	-	-	4,553
Operating Transfers In	-	-	-	-
Operating Transfers (Out)	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(34,449)	(34,449)	-	(25,834)
EXCESS REVENUE AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND AND OTHER USES	$ (22,049)	(15,803)	$ 6,246	$ 15,378
FUND BALANCE - BEGINNING OF YEAR		100,495		
FUND BALANCE - END OF YEAR		$ 84,692		

DEBT RETIREMENT FUNDS

COMBINING BALANCE SHEET

JUNE 30, 2018

	2009 Refunding Debt	2002 Debt	2017 Debt	Total
ASSETS				
Cash and Investments	$ 412,832	$ -	$ 20,156	$ 432,988
Due from Other Funds	-	-	-	-
TOTAL ASSETS	$ 412,832	$ -	$ 20,156	$ 432,988
LIABILITIES AND FUND BALANCE				
LIABILITIES				
Accounts Payable	$ -	$ -	$ -	$ -
Due to Other Governments	-	-	-	-
TOTAL LIABILITIES	-	-	-	-
FUND BALANCE				
Fund Balance	412,832	-	20,156	432,988
TOTAL FUND BALANCE	412,832	-	20,156	432,988
TOTAL LIABILITIES AND FUND BALANCE	$ 412,832	$ -	$ 20,156	$ 432,988

STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET TO ACTUAL

YEAR ENDED JUNE 30, 2018

	2009 Refunding Debt		
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUE			
Current Taxes	$ 261,960	$ 262,574	$ 614
Interest and Penalties on Delinquent Property Taxes	998	1,035	37
Earned Interest	1,763	1,896	133
State Aid Revenue	-	-	-
Miscellaneous	-	-	-
TOTAL REVENUE	264,721	265,505	784
EXPENDITURES			
Principal on Bonds	430,000	430,000	-
Interest on Bond	44,875	44,875	-
Agent Fees and Other	263	254	9
TOTAL EXPENDITURES	475,138	475,129	9
EXCESS REVENUE OVER (UNDER) EXPENDITURES	(210,417)	(209,624)	793
OTHER FINANCING SOURCES (USES)			
Bond Proceeds	-	-	-
Operating Transfers In	-	2,590	2,590
Operating Transfers (Out)	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	2,590	2,590
EXCESS REVENUE AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	$ (210,417)	(207,034)	$ 3,383
FUND BALANCE - BEGINNING OF YEAR		619,866	
FUND BALANCE - END OF YEAR		$ 412,832	

STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET TO ACTUAL (CONTINUED)

YEAR ENDED JUNE 30, 2018

2002 Debt			2017 Debt		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
$ -	$ -	$ -	$ 62,056	$ 62,192	$ 136
86	87	1	157	165	8
387	427	40	412	471	59
-	-	-	-	-	-
-	-	-	-	-	-
473	514	41	62,625	62,828	203
175,000	175,000	-	40,000	40,000	-
8,138	8,138	-	2,672	2,672	-
452	451	1	1	-	1
183,590	183,589	1	42,673	42,672	1
(183,117)	(183,075)	42	19,952	20,156	204
-	-	-	-	-	-
-	-	-	-	-	-
-	(2,590)	(2,590)	-	-	-
-	(2,590)	(2,590)	-	-	-
$ (183,117)	(185,665)	$ (2,548)	$ 19,952	20,156	$ 204
	185,665			-	
	$ -			$ 20,156	

STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET TO ACTUAL (CONTINUED)

YEAR ENDED JUNE 30, 2018

	Total		
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUE			
Current Taxes	$ 324,016	$ 324,766	$ 750
Interest and Penalties on Delinquent Property Taxes	1,241	1,287	46
Earned Interest	2,562	2,794	232
State Aid Revenue	-	-	-
Miscellaneous	-	-	-
TOTAL REVENUE	327,819	328,847	1,028
EXPENDITURES			
Principal on Bonds	645,000	645,000	-
Interest on Bond	55,685	55,685	-
Agent Fees and Other	716	705	11
TOTAL EXPENDITURES	701,401	701,390	11
EXCESS REVENUE OVER (UNDER) EXPENDITURES	(373,582)	(372,543)	1,039
OTHER FINANCING SOURCES (USES)			
Bond Proceeds	-	-	-
Operating Transfers In	-	2,590	(2,590)
Operating Transfers (Out)	-	(2,590)	2,590
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-
EXCESS REVENUE AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	$ (373,582)	(372,543)	$ 1,039
FUND BALANCE - BEGINNING OF YEAR		805,531	
FUND BALANCE - END OF YEAR		$ 432,988	

CAPITAL PROJECT FUND

BALANCE SHEET

JUNE 30, 2018

ASSETS		
Cash and Investments	$	58,037
Due from Other Funds		-
TOTAL ASSETS	$	58,037
LIABILITIES AND FUND BALANCE		
LIABILITIES		
Accounts Payable	$	-
Due to Other Funds		-
TOTAL LIABILITIES		-
FUND BALANCE		
Fund Balance		58,037
TOTAL FUND BALANCE		58,037
TOTAL LIABILITIES AND FUND BALANCE	$	58,037

STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES

YEAR ENDED JUNE 30, 2018

REVENUE		
Current Taxes	$	-
Delinquent Taxes		-
Interest and Penalties on Delinquent Property Taxes		-
Earned Interest		390
State Aid Revenue		-
Miscellaneous		-
TOTAL REVENUE		390
EXPENDITURES		
Debt Service		-
Capital Outlay		164,480
Bond Fees		-
TOTAL EXPENDITURES		164,480
EXCESS REVENUE OVER (UNDER) EXPENDITURES		(164,090)
OTHER FINANCING SOURCES (USES)		
Bond Proceeds		-
Operating Transfers In		-
Operating Transfers (Out)		-
TOTAL OTHER FINANCING SOURCES (USES)		-
EXCESS REVENUE AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES		(164,090)
FUND BALANCE - BEGINNING OF YEAR		222,127
FUND BALANCE - END OF YEAR	$	58,037

SINKING FUND

COMPARATIVE BALANCE SHEET

JUNE 30, 2018 AND 2017

	2018	2017
ASSETS		
Cash and Investments	$ -	$ -
Taxes Receivable	-	-
Due from Other Funds	332,344	326,228
TOTAL ASSETS	$ 332,344	$ 326,228
LIABILITIES AND FUND BALANCE		
LIABILITIES		
Accounts Payable	$ -	$ -
Due to Other Governments	-	-
TOTAL LIABILITIES	-	-
FUND BALANCE		
Fund Balance	332,344	326,228
TOTAL FUND BALANCE	332,344	326,228
TOTAL LIABILITIES AND FUND BALANCE	$ 332,344	$ 326,228

COMPARATIVE STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET TO ACTUAL

YEAR ENDED JUNE 30, 2018 AND 2017

	Budget	Actual	Variance Favorable (Unfavorable)	Prior Year Actual
REVENUE				
Current Taxes	$ 199,876	$ 200,356	$ 480	$ 257,094
Delinquent Taxes	687	716	29	894
Grants	-	-	-	-
Earned Interest	800	809	9	4,908
Miscellaneous	-	-	-	-
TOTAL REVENUE	201,363	201,881	518	262,896
EXPENDITURES				
Capital Outlay	200,057	195,765	4,292	115,594
TOTAL EXPENDITURES	200,057	195,765	4,292	115,594
EXCESS REVENUE OVER (UNDER) EXPENDITURES	1,306	6,116	4,810	147,302
OTHER FINANCING SOURCES (USES)				
Operating Transfers In	-	-	-	-
Operating Transfers (Out)	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	-
EXCESS REVENUE AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	$ 1,306	6,116	$ 4,810	$ 147,302
FUND BALANCE - BEGINNING OF YEAR		326,228		
FUND BALANCE - END OF YEAR		$ 332,344		

AGENCY FUNDS

STATEMENT OF ASSETS AND LIABILITIES

JUNE 30, 2018

ASSETS		
Cash and Investments	$	270,503
TOTAL ASSETS	$	270,503
LIABILITIES		
Due to Other Funds	$	-
Due to Student Groups		270,503
TOTAL LIABILITIES	$	270,503

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

YEAR ENDED JUNE 30, 2018

	July 1, 2017	Receipts	Disbursements	June 30, 2018
ASSETS				
Cash	$ 292,680	$ 338,612	$ 360,789	$ 270,503
LIABILITIES				
Due to Other Funds	$ -	$ -	$ -	$ -
Due to Student Groups	292,680	338,612	360,789	270,503
	$ 292,680	$ 338,612	$ 360,789	$ 270,503

DETAILED STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
INTERNAL ACTIVITIES FUND

YEAR ENDED JUNE 30, 2018

ACTIVITY	Due to Student Groups July 1, 2017	Receipts	Disbursements	Due to Student Groups June 30, 2018
Academic Boosters	$ 77	$ -	$ -	$ 77
Academic Service Learning	2,078	-	162	1,916
Alumni Account	33,090	-	1,309	31,781
Ames Memorial	21,813	335	2,000	20,148
Athletic Tournaments	7,649	13,979	17,745	3,883
Larry Dailey Fundraiser	-	6,035	6,035	-
Band Piano	1,525	-	-	1,525
Band Fundraising	2,512	9,947	10,181	2,278
Band Travel	5,780	28,282	34,062	-
Blooming Comets	214	-	44	170
Bulgrien Act	-	328	-	328
Give Hope	150	-	128	22
5th Grade	2,416	2,490	2,246	2,660
Cheerleaders	2,484	2,271	3,749	1,006
Choir	151	1,434	991	594
Chris Brian Scholarship	910	277	-	1,187
Citizens for Education	(5)	5	-	-
Class of:				
2016	3,390	-	227	3,163
2017	372	680	-	1,052
2018	4,988	168	2,338	2,818
2019	4,428	5,858	5,993	4,293
2020	5,723	1,936	1,679	5,980
2021	-	1,890	-	1,890
Competitive Grant (JCF)	166	30,000	22,077	8,089
Cool Care Challenge	57	-	-	57
Counseling - Elem	100	-	-	100
Drama Club	6,666	1,043	1,353	6,356
Earnings of Investments	881	2,221	69	3,033
Educational Fund Grants	1,334	1,700	1,532	1,502
Elementary	2,733	1,636	1,967	2,402
Young 5 Field Trips	823	608	557	874
Kindergarten Field Trips	1,624	1,740	1,752	1,612
First Grade Field Trips	972	553	1,376	149
Elementary Art	779	-	-	779
Second Grade Field Trips	1,519	656	729	1,446
Third Grade Field Trips	1,667	190	398	1,459
Elementary Box Tops	526	640	96	1,070
Fourth Grade Field Trips	1,919	1,321	2,666	574
Elementary Lock In	-	3,677	1,747	1,930
Elementary Fourth Grade Science	930	300	741	489
Elementary Merchandise	$ 341	$ 3,611	$ 2,755	$ 1,197

DETAILED STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
INTERNAL ACTIVITIES FUND (CONTINUED)

YEAR ENDED JUNE 30, 2018

ACTIVITY	Due to Student Groups July 1, 2017	Receipts	Disbursements	Due to Student Groups June 30, 2018
Elementary Pop Fund	$ 1,390	$ 688	$ 1,593	$ 485
Elementary RTI	232	-	133	99
Elementary Student Council	1,054	-	-	1,054
Girl's Golf	100	-	-	100
Girl's Travel Basketball	1,724	16,358	13,078	5,004
H-H Renaissance Account	(263)	-	-	(263)
H-H Music Boosters	10,095	9,762	10,654	9,203
H-H Community Service Club	2,780	3,675	4,128	2,327
HS Art	232	100	216	116
HS Baseball	3,977	2,595	5,587	985
HS Business Management Class	443	4,344	3,939	848
HS Cross Country	2,091	18,445	17,678	2,858
HS English Department	500	-	-	500
HS Football	9,758	12,663	12,328	10,093
HS GSA Club	51	-	-	51
HS Golf	(192)	-	-	(192)
HS Human Relations	1,425	-	-	1,425
HS Journalism	511	328	194	645
HS Milk Grant	1,062	-	1,062	-
HS Miscellaneous	2,700	598	959	2,339
HS Counseling	1,069	1,611	1,190	1,490
HS National Honor Society	1,376	699	434	1,641
HS Portfolio Supplies	590	-	-	590
HS Tech Lab	1,311	453	466	1,298
HS Softball	(710)	1,597	887	-
HS World Language Club	1,954	101	178	1,877
HS SAC	939	-	-	939
HS Girls Soccer	4,759	524	2,700	2,583
HS Boys Soccer	1,245	4,074	1,171	4,148
HS Student Council	3,389	1,187	2,256	2,320
HS Teacher's Lounge	196	56	-	252
HS Track	276	6,276	6,259	293
HS Website Development	230	-	-	230
HS Yearbook	(5,547)	5,555	1,227	(1,219)
JCF Youth Mini Grant	73	-	-	73
Junior Pro Boys Basketball	4,124	10,588	15,347	(635)
Kids Club	67	-	-	67
Ladd Scholarship	97	-	-	97
Library Fund	980	1,853	2,025	808
Lil Comets	$ 1,660	$ -	$ -	$ 1,660

DETAILED STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
INTERNAL ACTIVITIES FUND (CONTINUED)

YEAR ENDED JUNE 30, 2018

ACTIVITY	Due to Student Groups July 1, 2017	Receipts	Disbursements	Due to Student Groups June 30, 2018
Loss and Damage	$ 695	$ 476	$ 774	$ 397
Maintenance Rewards and Recognition	682	473	174	981
M. Bytnar Memorial Fund	217	-	-	217
Most Teens Don't	692	-	-	692
MS Activity	8,509	24,842	23,107	10,244
MS Art Fund	165	242	141	266
MS Cheerleading	22	-	-	22
MS Choir	3,696	2,373	2,168	3,901
MS Robotics	180	-	-	180
MS Miscellaneous	3,295	528	341	3,482
MS Pop Machine	342	93	-	435
MS Popcorn Repair Fund	478	-	-	478
MS Rewards	1	-	-	1
MS Running Club	71	-	-	71
MS Student Council	1,387	2,509	2,392	1,504
MS Volleyball	-	-	-	-
Weight Equipment	298	-	-	298
MS Yearbook	1,483	48	-	1,531
McGee Scholarship L.E.	1,467	1,510	1,000	1,977
New Library	1,084	-	-	1,084
New Press Box	340	-	-	340
Nick Thornsbury Memorial	3,716	50	300	3,466
Night Lights	5,430	5,753	8,324	2,859
Nursing	130	-	-	130
HS Science Dept	513	400	566	347
Pop Machine	(51)	5,794	4,777	966
PTA	2,033	7,932	1,534	8,431
RIOT Account	846	-	-	846
Robbie Curtis Charitable	1,004	-	-	1,004
Ruth Creps Scholarship	43,221	34,309	46,650	30,880
Soccer	4,831	4,101	3,544	5,388
Scholarship Fund	3,282	9,000	12,214	68
HS Math	1,102	695	380	1,417
Student Teacher Fund	1,043	-	241	802
Summer Lights	769	-	-	769
Supplies R Us	2,637	1,299	2,222	1,714
Tech Grant	10,430	2,000	12,000	430
HS Volleyball	5,014	386	94	5,306
Wall of Fame	1,000	-	-	1,000
Wrestling Club	92	1,950	1,775	267
Wallbaum Field Trip	-	1,908	1,678	230
Youth Baseball	4	-	-	4
Total	$ 292,680	$ 338,612	$ 360,789	$ 270,503

STATEMENTS OF INDEBTEDNESS

JUNE 30, 2018

EQUIPMENT LOAN

Balance Outstanding - June 30, 2018 **$ 49,277**

Balance Payable as Follows:

Year	Interest Rate	Principal	Interest	Total
2018-2019	2.75%	$ 7,667	$ 1,355	$ 9,022
2019-2020	2.75%	7,878	1,144	9,022
2020-2021	2.75%	8,094	928	9,022
2021-2022	2.75%	8,317	705	9,022
2022-2023	2.75%	8,545	477	9,022
2023-2024	2.75%	8,776	246	9,022
		$ 49,277	$ 4,855	$ 54,132

2009 REFUNDING DEBT

Balance Outstanding - June 30, 2018 **$ 825,000**

Balance Payable as Follows:

Year	Interest Rate	Principal	Interest	Total
2018-19	3.50%	$ 420,000	$ 30,900	$ 450,900
2019-20	4.00%	405,000	16,200	421,200
		$ 825,000	$ 47,100	$ 872,100

JUNE 30, 2018

2002 DEBT

Balance Outstanding - June 30, 2018 **$ -**

2017 DEBT

Balance Outstanding - June 30, 2018 **$ 210,000**

Balance Payable as Follows:

Year	Interest Rate	Principal	Interest	Total
2018-2019	1.30%	$ 45,000	$ 2,785	$ 47,785
2019-2020	1.35%	50,000	2,268	52,268
2020-2021	1.40%	55,000	1,642	56,642
2021-2022	1.50%	60,000	900	60,900
		$ 210,000	$ 7,595	$ 217,595

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Accountants

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

INDEPENDENT AUDITORS' REPORT

Board of Education
Hanover-Horton School District
Horton, 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 Hanover-Horton Schools as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Hanover-Horton School's basic financial statements, and have issued our report thereon dated August 27, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Hanover-Horton School's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Hanover-Horton School's internal control. Accordingly, we do not express an opinion on the effectiveness of Hanover-Horton School'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 combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of Hanover-Horton School'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 Hanover-Horton School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance 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 on opinion on the effectiveness of Hanover-Horton School 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 Hanover-Horton School District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Karl L Drake

Drake Certified Public Accountants

August 27, 2018

Drake
Certified
Public
Accountants

July 19, 2018

Board of Education
Hanover-Horton Schools
Horton, Michigan 49426

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hanover-Horton Schools for the year ended June 30, 2018, and have issued our report thereon dated July 19, 2018. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated December 13, 2017, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter dated December 13, 2017.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Hanover-Horton Schools are described in Note 1 to the financial statements. New accounting policies were adopted, and the application of existing policies was not changed during this fiscal year. We noted no transactions entered into by the governmental unit, during the year, for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them

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may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

> Management's estimate of the depreciation is based on useful life of the assets. We evaluated the key factors and assumptions used to develop the estimate, in determining that it is reasonable, in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

> The disclosure of long-term debt in Note 18 to the financial statements.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. None of the misstatements detected as a result of audit procedures, and corrected by management, were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated July 19, 2018.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. The primary discussions held this year revolved around the segregation of responsibilities in the School District office. These discussions occurred in the normal course of our professional relationship, however, and our responses were not a condition to our retention.

<u>Accounting Policy Changes</u>

During the fiscal year ended June 30, 2018, the District adopted GASB Statement number 75. This Statement changed the post-employment benefit reporting in the audited financial statements and footnote presentation.

This information is intended solely for the use of Hanover-Horton Schools, management of Hanover-Horton Schools and the Michigan Department of Education, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Karl L Drake

Drake Certified Public Accountants, P.C.