HESPERIA
COMMUNITY SCHOOLS

FINANCIAL STATEMENTS

YEAR ENDED
JUNE 30, 2015

KARL L. DRAKE, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

LIST OF PRINCIPAL INDIVIDUALS

JUNE 30, 2015

Board of Education

Ryan Good	President
Scott Wenberg	Vice President
Katrina Yates	Secretary
Patricia Budde (Appointed by Board)	Treasurer
Patrick Broton	Board Member
Al Daniels	Board Member
Mary Sturtevant	Board Member
Cheryl Rose	Board Member

Management

Michael Corey	Superintendent
Patricia Budde	Business Manager

HESPERIA COMMUNITY SCHOOLS

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Karl L. Drake, P.C.
Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

Board of Education
Hesperia Community Schools
Hesperia, 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 Hesperia Community Schools, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Hesperia Community School's basic financial statements as listed in the table of contents.

Managements Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Hesperia Community Schools, as of June 30, 2015, and the respective changes in financial position, and where applicable, cash flow 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 15 to the financial statements, the District adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for 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 and budgetary comparison information on pages 3-9 and 44-47 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 Hesperia Community School's basic financial statements. The other supplemental information and schedule of expenditures of federal awards (as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations) are presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplemental information and schedule of expenditures of federal awards (as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations) are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplemental information and schedule of expenditures of federal awards (as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations) are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Karl L Drake

Karl L. Drake, P.C.
Certified Public Accountants

October 19, 2015

HESPERIA COMMUNITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Hesperia Community Schools' annual financial report presents discussion and analysis of the School District's financial performance during the year ended June 30, 2015. 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 Hesperia Community Schools 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
Budgetary Information for the General Fund and Food Service
(Required Supplemental Information)

Other Supplemental Information

Federal Financial Assistance

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

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net position and the statement of activities 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 help 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 - District-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, child-care, 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 that 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 separate statements 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 I provides a summary of the School District's net position as of June 30, 2015 and 2014:

TABLE 1	Governmental Activities (In Millions)	
	2015	2014
ASSETS		
Current and other assets	$ 2.6	$ 3.0
Capital assets - net of accumulated depreciation	16.7	17.0
TOTAL ASSETS	19.3	20.0
DEFFERED OUTFLOWS OF RESOURCES	1.6	1.0
LIABILITIES		
Current liabilities	2.7	2.6
Long-term liabilities	33.8	35.6
TOTAL LIABILITIES	36.5	38.2
DEFERRED INFLOWS OF RESOURCES	1.5	1.2
NET POSITION		
Net Investment in Capital Assets	(4.4)	(4.3)
Restricted	0.4	0.5
Unrestricted	(13.1)	(14.6)
TOTAL NET POSITION	$ (17.1)	$ (18.4)

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 (deficit) was $-17.1 million at June 30, 2015. Net investment in capital assets totaling $-4.4 million compares the original cost, less depreciation of the School District's capital assets to long-term debt, including accrued interest on capital appreciation bonds, used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use that net position for day-to-day operations. The remaining amount of net position ($-13.1 million) was unrestricted.

The balance 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 years 2015 and 2014.

TABLE 2	Governmental Activities (In Millions)	
	2015	2014
REVENUE		
Program Revenue		
Charges for Services	$ 0.2	$ 0.2
Grants and Categoricals	1.5	1.7
General Revenue		
Property Taxes	1.8	1.7
State Aid	7.6	7.2
Other	0.3	0.6
TOTAL REVENUE	11.4	11.4
FUNCTION/PROGRAM EXPENSES		
Instruction	7.1	6.9
Support Services	1.0	2.9
Community Services	-	-
Food Services	0.5	0.5
Interest on Long-Term Debt	0.9	1.0
Depreciation (Unallocated)	0.6	0.6
TOTAL FUNCTION/PROGRAM EXPENSES	10.1	11.9
INCREASE (DECREASE) IN NET POSITION	$ 1.3	$ (0.5)

As reported in the statement of activities, the cost of all governmental activities this year was $10.1 million. Certain activities were partially funded from those who benefited from the programs ($0.2 million) or by other governments and organizations that subsidized certain programs with grants and categoricals ($1.5 million). The remaining "public benefit" portion of the governmental activities was paid with $1.8 million in taxes, $7.6 million in State Foundation Allowance, and with other revenue such as interest and general entitlements.

The School District experienced an increase in net position of $1.3 million. The key reason for the change in net position was the decrease in the net pension liability. The increase in net position differs from the change in fund balance and reconciliation appears on page 15.

The School District as a Whole (Continued)

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

The School District's Funds

As 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 $1.5 million, which is a decrease of $0.2 million from last year. The primary reason for the decrease was reductions in adult education funding. The General Fund, the principal operating fund, saw the fund balance decrease $96,841 to $1,081,584.

- The Special Revenue Funds remained stable from the prior year, showing a net decrease of approximately $32,241.
- Combined, the Debt Service Funds showed a fund balance decrease of approximately $97,034. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. Fund balances for Debt Service Funds are reserved, 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 the required supplemental information of these financial statements. Changes to the General Fund original budget were as follows:

- Budgeted revenue was decreased in total by $453,013 which is the result of changes to the various revenue accounts in the original budget. The main differences were in state aid, federal grant amounts and incoming transfers. Many of the grant amounts are not known when the original budget is adopted, and therefore need to be amended after those amounts are disclosed. The fall 2014 student membership numbers were down from what was estimated for pupil membership which resulted in less state aid. Actual revenue received compared to final budget amended decreased by $68,942. This is a result of the utilization of deferred revenue, and receiving less in federal grants due to under-spending of federal grant monies prior to year-end.
- Budgeted expenditures comparing original budget to final amended budget were decreased by $571,213 to reflect for staffing changes that occurred during the year and to adjust for under spending of the grant amounts. Actual expenditures compared to the final amended budget decreased by $119,691. This decrease resulted from a net of the grants not being totally spent and general under-spending.

General Budgetary Highlights (Continued)

- When reviewing the fund balance, the final amended budget estimated the fund balance to be $1,030,834 and the actual fund balance is $1,081,584. This represents a positive variance of $50,751 between the budgeted amount of fund balance and the actual fund balance. The fund balance ending June 30, 2014, was $1,178,425 and the fund balance ending June 30, 2015, is $1,081,584. This represents a use of fund balance of $96,841 over the previous year resulting in a decrease in the amount of fund balance.

Capital Asset and Debt Administration

Capital Asset

At June 30, 2015, the School District had $16.8 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 $225,239 or 1 percent, from last year.

	2015	2014
Land	$ 75,012	$ 75,012
Buildings	19,639,846	19,629,488
Buses and Other Vehicles	1,359,969	1,329,551
Furniture and Equipment	2,612,047	2,344,596
Total Capital Assets	23,686,874	23,378,647
Less Accumulated Depreciation	(6,918,318)	(6,384,852)
Net Capital Assets	$ 16,768,556	$ 16,993,795

Debt

At the end of this year, the School District had $21.2 million in bonds and notes outstanding versus $21.6 million in the previous year - a decrease of 2 percent. Those bonds and notes consisted of the following:

	2015	2014
General Obligation Bonds	$ 21,214,574	$ 21,639,768
Notes Payable	-	-
	$ 21,214,574	$ 21,639,768

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 $21.2 million is 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 2015-2016 fiscal year budget. One of the most important factors affecting the budget is the student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2015-2016 fiscal year is 10 percent of the February 2014 student count and 90 percent of the October 2015 student count. The budget for 2015-2016 included a loss of membership of 56 students for Fall of 2015 when compared to Fall of 2014. The district graduated a large senior class in the Spring of 2015 and estimated a smaller kindergarten class for Fall of 2015. The 2015-2016 fiscal year budget was adopted in June 2015, based on an estimate of students that will be enrolled on count day in October 2015. Approximately 75 to 80 percent of total General Fund revenue is from the foundation allowance. Under State law, the School District cannot access additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State’s ability to fund local school operations. Based on early enrollment data at the start of the 2015-2016 school year, we anticipate that the fall student count will be lower than the estimates used in creating the 2015-2016 fiscal year budget. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget if actual district resources are not sufficient to fund original appropriations.

Because the School District’s revenue is heavily dependent on State funding and the health of the State’s School Aid Fund, the actual revenue received depends on the State’s ability to collect revenue to fund its appropriation to school districts. The District has estimated a minimal increase to the amount given in the 2015-2016 fiscal year in state aid and used a conservative number for student membership. Maintaining structural balance with continually increasing program and reporting mandates leads to tough programming and personnel decisions. This creates a delicate balance of doing what is best for students and being fiscally responsible.

The District is again facing increased retirement contributions as determined by the State to maintain the Michigan Public School Employees Retirement System. What has been initially proposed for 2015-2016 represents a relatively stable cost to the District. The addition of GASB 68 reporting requirements have added to the burden of reporting for the retirement plan. Reforms that have been introduced have made the process of payroll reporting for retirement purposes extremely detailed and difficult.

GASB 68 is an accounting standard applicable to all governments that provide defined benefit pension plans. The defined benefit plan Michigan schools are required to participate in is the Michigan Public School Employees Retirement System (MPSERS), which is managed by the Office of Retirement Services (ORS). This plan is a cost-sharing multiemployer plan, which means each participating school district must account for its share of the total plan. This includes its portion of both the net pension liability and the pension expense. Beginning with the districts’ June 30, 2015 financial statements, these amounts will have to be included in the statements.

The new reporting requirement will now have the net pension liability divided proportionately among the school employers and recorded on each school employer’s financial statements. We will be showing our proportionate share of the net liability (unfunded portion). A ratio will be computed for each participating district to determine the amount.

Economic Factors and Next Year's Budgets and Rates (Continued)

This liability is unlike other liabilities reported on a balance sheet in that it is not immediately due and it cannot be paid off under an accelerated schedule. This liability will be recognized on the district's government-wide financial statements only. GASB 68 will not change how the amounts are recorded in the General Fund. This liability will more than likely be one of the biggest liabilities on the Statement of Net Position. In government-wide statements, net position is essentially your government-wide equity. This new measure of total pension expense will no longer be equal to the contribution amount dictated by the contribution rate. It will now represent the change in net pension liability from year to year and can change materially from one year to the next. The change in the amount from year to year is due to the fact that the liability is paid off over time; the market values fluctuate over time and the reporting unit proportionate share can change.

Each plan year fiscal year, ORS will determine each reporting unit's proportionate share by calculating it as a percentage of the total pension contributions required from all reporting units in the plan. The hope is that the Auditor General will audit both the total amount and each district's allocation. This will be important as the district and auditor need to be able to rely on the amounts reported.

We will now be required to account for our share of the liability; however we are not required to fund that liability beyond the rates established in accordance with statute. We have been told that rating agencies are aware of GASB 68 and the agencies are not expected to change how they set an organization's credit rating.

The current pension system disclosures required by GASB 68 have significantly expanded and the new Required Supplementary Information schedules will be added to the report.

During the year the School District implemented GASB 68 which resulted in a restatement of beginning net position. Beginning net position in the statement of activities was reduced by $14,846,712. As of June 30, 2015, the estimated net pension liability for the school district is $13,430,779. Additionally deferred inflows relating to net pension liability are $1,485,353, and deferred outflows relating to the net pension liability are $1,555,320. These deferrals will be amortized through the plan year 2018.

Increasing employee insurance premiums have been a major issue. With the passing of Public Act 152, mandating employee health insurance contributions which have capped our costs, we have some relief, but providing adequate health care for our employees within our budget resources poses a challenge for the future. The National Health Care Reform Act will also add an additional burden to payroll to implement (without any additional funding) and comply with the required administrative rules.

The main challenge to our district is maintaining an acceptable fund balance with revenue decreasing and expenditures increasing. We need to have an acceptable fund balance to cover any anticipated or unanticipated expenditures. We need to focus on increasing student achievement as future funding increases will be tied to student achievement. We also need to have funds to cover building repair and maintenance, update technology and curriculum, and keep our bus fleet current. Establishing priorities and making hard decisions will be critical in our planning process.

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 Hesperia Community School 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, P.O. Box 338, 96 S. Division Street, Hesperia, Michigan 49421.

BASIC FINANCIAL STATEMENTS

HESPERIA COMMUNITY SCHOOLS

STATEMENT OF NET POSITION

JUNE 30, 2015

		Governmental Activities
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$	879,844
Due From Other Governmental Units		1,677,055
Accounts Receivable		2,442
Inventories		39,197
Prepaid Expenditures		-
TOTAL CURRENT ASSETS		2,598,538
NON-CURRENT ASSETS		
Capital Assets		23,686,874
Less: Accumulated Depreciation		(6,918,318)
TOTAL NON-CURRENT ASSETS		16,768,556
TOTAL ASSETS		19,367,094
DEFERRED OUTFLOWS OF RESOURCES		
Pension Contributions		1,555,320
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$	20,922,414
LIABILITIES, DEFERRED INLFOWS OF RESOURCES, AND NET POSITION		
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable	$	123,487
Accrued Salaries and Expenses		914,151
Accrued Interest		641,517
Unavailable Revenue		36,416
Bonds and Loans Payable, Due within One Year		1,014,642
TOTAL CURRENT LIABILITIES		2,730,213
NON-CURRENT LIABILITIES		
Bonds and Loans Payable		20,199,932
Compensated Absences and Severance Pay		181,408
Net Pension Liability		13,430,779
TOTAL NON-CURRENT LIABILITIES		33,812,119
TOTAL LIABILITIES		36,542,332
DEFERRED INLFOWS OF RESOURCES		
Pension		1,485,353
NET POSITION		
Net Investment in Capital Assets		(4,446,018)
Restricted for Debt Service		262,278
Restricted for Food Service		180,622
Unrestricted		(13,102,153)
TOTAL NET POSITION		(17,105,271)
TOTAL LIABILITIES, DEFERRED INLFOWS OF RESOURCES, AND NET POSITION	$	20,922,414

See Accompanying Notes to Financial Statements

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2015

	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	$ 7,054,525	$ -	$ 1,061,447	$ (5,993,078)
Support Services	1,021,620	66,423	31,911	(923,286)
Food Services	496,027	93,622	429,949	27,544
Community Services	10,555	-	-	(10,555)
Interest on Long-Term Debt	908,855	-	-	(908,855)
Depreciation (Unallocated)	600,223	-	-	(600,223)
Total Governmental Activities	10,091,805	160,045	1,523,307	(8,408,453)
General Revenue				
Taxes				
Property Taxes, Levied for General Operations				854,494
Property Taxes, Levied for Debt Service				931,397
State of Michigan Aid, Unrestricted				7,564,463
Interest Earnings				5,913
Other				336,918
Total General Revenue				9,693,185
CHANGE IN NET POSITION				1,284,732
NET POSITION - BEGINNING OF YEAR				(18,390,003)
NET POSITION - END OF YEAR				$ (17,105,271)

See Accompanying Notes to Financial Statements

BALANCE SHEET

JUNE 30, 2015

	General	Food Service	Other Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Cash and Investments	$ 526,020	$ 91,546	$ 262,278	$ 879,844
Accounts Receivable	2,442	-	-	2,442
Due from Other Governmental Units	1,677,055	-	-	1,677,055
Due from Other Funds	-	99,242	-	99,242
Inventories	33,076	6,121	-	39,197
Prepaid Expenditures	-	-	-	-
TOTAL ASSETS	$ 2,238,593	$ 196,909	$ 262,278	$ 2,697,780
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
LIABILITIES				
Accounts Payable	$ 107,200	$ 16,287	$ -	$ 123,487
Accrued Salaries and Withholdings	914,151	-	-	914,151
Due to Other Funds	99,242	-	-	99,242
TOTAL LIABLITIES	1,120,593	16,287	-	1,136,880
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue	36,416	-	-	36,416
FUND BALANCES				
Non-spendable	33,076	6,121	-	39,197
Restricted	-	174,501	262,278	436,779
Committed	-	-	-	-
Assigned	42,333	-	-	42,333
Unrestricted	1,006,175	-	-	1,006,175
TOTAL FUND BALANCES	1,081,584	180,622	262,278	1,524,484
TOTAL LIABILITIES AND FUND BALANCES	$ 2,202,177	$ 196,909	$ 262,278	$ 2,661,364

TOTAL GOVERNMENTAL FUND BALANCES	$ 1,524,484
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	23,686,874
Accumulated Depreciation	(6,918,318)
	16,768,556
Long-term liabilities are not due and payable in the current period and are not reported in the fund:	
Bonds and Notes Payable	(21,214,574)
Compensated Absences	(181,408)
Net Pension Liability	(13,430,779)
Accrued interest is not included as a liability in governmental funds	(641,517)
Deferred Outflows of Resources Pensions are not included in governmental funds	1,555,320
Deferred Inflows of Resources Pensions are not included in governmental funds	(1,485,353)
NET POSITION OF GOVERNMENTAL ACTIVITIES	$ (17,105,271)

STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES

YEAR ENDED JUNE 30, 2015

	General	Food Service	Other Non-Major Governmental Funds	Total Governmental Funds
REVENUE				
Local Sources	$ 995,685	$ 56,440	$ 931,397	$ 1,983,522
Inter-District Sources	175,432	-	-	175,432
State Souces	8,108,360	16,084	-	8,124,444
Federal Sources	549,461	413,865	-	963,326
Other Sources	15,900	37,248	76,665	129,813
TOTAL REVENUE	9,844,838	523,637	1,008,062	11,376,537
EXPENDITURES				
Instruction	7,054,525	-	-	7,054,525
Supporting Services	2,585,537	496,027	-	3,081,564
Cummunity Services	10,555	-	-	10,555
Debt Service	159,586	-	1,660,318	1,819,904
Capital Outlay	131,476	59,851	-	191,327
TOTAL EXPENDITURES	9,941,679	555,878	1,660,318	12,157,875
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	(96,841)	(32,241)	(652,256)	(781,338)
OTHER FINANCING SOURCES (USES)				
Loan Proceeds	-	-	555,222	555,222
Transfers In (Out)	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	555,222	555,222
NET CHANGE IN FUND BALANCES	(96,841)	(32,241)	(97,034)	(226,116)
FUND BALANCES - BEGINNING OF YEAR	1,178,425	212,863	359,312	1,750,600
FUND BALANCES - END OF YEAR	$ 1,081,584	$ 180,622	$ 262,278	$ 1,524,484

See Accompanying Notes to Financial Statements

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

YEAR ENDED JUNE 30, 2015

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS		$ (226,116)
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	(600,223)	
Capital Outlay	374,984	
		(225,239)
- Bonds and loan proceeds are recorded as an other financing source in governmental funds. These are recorded as a liability and not included in the statement of activities.		(555,222)
- Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid.		(145,754)
- Deferred outflows of resources are recorded on the statement of net position but not in the governmental funds.		508,264
- Deferred inflows of resources are recorded on the statement of net position but not in the governmental funds.		(199,166)
- 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).		980,416
- Compensated absences are included in expenditures in the statement of activities but not in the governmental funds.		(29,253)
- Net pension liability is recorded on the statement of net position but not in the governmental funds.		1,176,802
CHANGES IN NET POSITION OF GOVERNMENTAL ACTIVITIES		$1,284,732

STATEMENT OF NET POSITION

JUNE 30, 2015

ASSETS		
Cash and Cash Equivalents	$	87,473
Accounts Receivable		-
TOTAL ASSETS	$	87,473
LIABILITIES		
Due to Others	$	201
Due to Student Groups		87,272
TOTAL LIABILITIES	$	87,473
NET POSITION	$	-

See Accompanying Notes to Financial Statements

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

A. REPORTING ENTITY

Hesperia Community School is located in Newaygo and Oceana Counties in 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 non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the 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 they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and 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

General Fund

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.

Special Revenue Funds

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.

Debt Service Funds

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 Service Funds maintained by the School District are to retire outstanding 2009, 2009 Refunding, 2008 Series A, and QZAB bonded indebtedness.

Capital Project Funds

Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. BASIS OF PRESENTATION (CONTINUED)

Fund Based Statements (Continued)

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 District collects its taxes through the local township treasurers. Settlement of the delinquent real property taxes is funded by Newaygo and Oceana Counties. The 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.

G. FINANCIAL INSTRUMENTS

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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 or 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 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 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.

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. Capital assets are defined by the government as assets with an initial individual cost of more than $500 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 extended asset life are not capitalized. The School District does not have infrastructure type assets.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. CAPITAL ASSETS (CONTINUED)

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. 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. Categorical funds received, which are not expended by the close of the fiscal year, are recorded as deferred revenue.

O. DEFERRED OUTFLOW/INFLOW OF RESOURCES

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflow of resources. This separate financial statement element, deferred outflow of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expenses) until then.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. DEFERRED OUTFLOW/INFLOW OF RESOURCES (CONTINUED)

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflow of resources. This separate financial statement element, deferred inflow of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until 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.

P. 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.

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 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.
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.

NOTE 2 - DEPOSITS WITH FINANCIAL INSTITUTIONS (CONTINUED)

LEGAL OR CONTRACTUAL PROVISIONS FOR DEPOSITS AND INVESTMENTS (CONTINUED)

The School District maintains all of its cash deposits in four financial institutions. At June 30, 2015, the book value of the School District's deposits was $967,302 and the bank balance was $1,030,689. Of the bank balance, $329,093 was covered by federal depository insurance and $701,596 was uninsured and uncollateralized.

There is $3,521 in the Michigan Liquid Asset Fund Plus Account. This cash equivalent is not categorized as to risk because it is not evidenced by securities that the School owns specifically or can be identified with securities within the liquid asset account.

Total cash and cash equivalent deposits as of June 30, 2015, consist of:

Petty Cash	$	100
Deposits with Financial Institutions		963,696
Deposits with MILAF Account		3,521
	$	967,317

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 - BUDGETARY ACCOUNTING

During the year ended June 30, 2015, the School District incurred no expenditures that were in excess of the amounts budgeted.

NOTE 4 - ACCRUED SALARIES AND FRINGE BENEFITS

At June 30, 2015, $560,325 represents salaries payable, which is the unpaid portion of teacher contracts for the 2014-15 school year. On these salaries, there are also fringe benefits payable at year-end totaling $353,826.

NOTE 5 - COMPONENTS OF FUND BALANCE

The School District had the following components of fund balance at June 30, 2015:

A. $33,076 of fund balance in the General Fund is non-spendable. This amount represents inventory supplies on hand at year-end and is not available for current appropriations and expenditures.

B. $6,121 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 and is not available for current appropriations and expenditures of the Food Service Fund.

C. A portion of the fund balance is assigned for anticipated major expenses. The Board has elected to assign monies as follows:

Band Uniforms	$	13,269
Next Year Budget Deficit		29,064
	$	42,333

D. The balance of the Fund Balance is unassigned and is available to fund future School operations. The June 30, 2015, Unassigned General Fund Balance of $1,006,175 compares to June 30, 2014, Unassigned General Fund Balance of $863,748.

NOTE 6 - INVENTORY

The $33,076 shown as inventory in the General Fund represents the value of supplies, bus parts, and fuel on hand at June 30, 2015.

There was $6,121 of inventory in the Special Revenue Fund - Food Service at June 30, 2015.

Total inventory of both funds at June 30, 2015, was $39,197.

NOTE 7 - DUE FROM OTHER GOVERNMENTAL UNITS

The Due from Other Governmental Units at June 30, 2015, is comprised of the following:

Newago County RESA	$ 104,543
State of Michigan	
State Aid	1,467,874
TRIG	10,589
Title IIA	6,524
Title VI	2,097
Title I	78,386
National School Lunch	3,049
Special Breakfast	3,993
Other	-
	$ 1,677,055

NOTE 8 - CAPITAL ASSETS

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

	July 1, 2014	Additions	Disposals and Adjustments	June 30, 2015
Assets not being depreciated:				
Land	$ 75,012	$ -	$ -	$ 75,012
Capital assets being depreciated:				
Building and Building Improvements	19,629,488	11,493	1,135	19,639,846
Buses and Other Vehicles	1,329,551	85,257	54,839	1,359,969
Furniture and Equipment	2,344,596	279,438	11,987	2,612,047
Subtotal	23,303,635	376,188	67,961	23,611,862
Accumulated depreciation:				
Building and Building Improvements	4,038,964	364,988	1,135	4,402,817
Buses and Other Vehicles	933,688	77,167	54,839	956,016
Furniture and Equipment	1,412,200	158,068	10,783	1,559,485
Subtotal	6,384,852	600,223	66,757	6,918,318
Net Capital Assets Being Depreciated	16,918,783	(224,035)	1,204	16,693,544
Net Capital Assets	$ 16,993,795	$ (224,035)	$ 1,204	$ 16,768,556

NOTE 8 - CAPITAL ASSETS (CONTINUED)

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

NOTE 9 - DUE TO/FROM OTHER FUNDS

Due to/due from at June 30, 2015, consisted of the following:

Due To:		Due From:	
Food Service	$ 99,242	General Fund	$ 99,242
	$ 99,242		$ 99,242

NOTE 10 - SHORT-TERM BORROWING

On October 1, 2014, Hesperia Community Schools borrowed $1,300,000 via a state aid note through Shelby State Bank. Interest was at 0.545%. The entire balance of this loan plus interest of $5,294 was repaid on June 30, 2015.

NOTE 11 - LONG TERM DEBT

Long-Term Debt is comprised of bonded debt, bus notes and other notes payable. During the year ended June 30, 2015, long-term debt changed as follows:

Bond Issue	Balance June 30, 2014	Additonal Debt	2014-2015 Payments	Balance June 30, 2015
2009 Refunding Bond Issue	$ 3,565,000	$ -	$ 350,000	$ 3,215,000
2008 Series A Bond Issue	8,310,000	-	205,000	8,105,000
2009 Bond Issue	5,365,000	-	170,000	5,195,000
QZAB Bonds	673,736	-	255,416	418,320
School Loan Revolving	3,726,032	555,222	-	4,281,254
	21,639,768	555,222	980,416	21,214,574
Teacher Buy-Outs	100,000	90,000	50,000	140,000
Severance Pay	13,895	-	385	13,510
Compensated Absences	38,260	-	10,362	27,898
	$ 21,791,923	$ 645,222	$ 1,041,163	$ 21,395,982

NOTE 11 - LONG TERM DEBT (CONTINUED)

Future minimum payments are as follows:

	Other Bonds	School Loan Revolving	QZAB Bonds	Total
Year Ending June 30,				
2016	$ 755,000	$ -	$ 259,642	$ 1,014,642
2017	785,000	-	87,536	872,536
2018	815,000	-	53,742	868,742
2019	830,000	-	17,400	847,400
2020	845,000	-	-	845,000
Thereafter	12,485,000	4,281,254	-	16,766,254
	$ 16,515,000	$ 4,281,254	$ 418,320	$ 21,214,574

A. 2012 QZAB BONDS

On June 30, 2013, the School District borrowed $83,424 of Qualified Zone Academy Bonds for the purchase of a school bus. The bonds bear interest at 4.24% with interest payable on June 20 and December 20 and principal of $16,684.80 due each June 20. The payments began on December 20, 2012 and the final payment is due on June 20, 2017. The balance due at June 30, 2015, was $33,369.

On June 20, 2012, the School District borrowed $85,558 of Qualified Zone Academy Bonds for the purchase of technology. The bonds bear interest at 4.24% with interest payable on June 20 and December 20 and principal of $17,111.60 due each June 20. The payments began on December 20, 2012 and the final payment is due on June 20, 2017. The balance due at June 30, 2014, was $34,222.

Each year, application is made to the Internal Revenue Service and the interest paid is refunded.

B. COMPENSATED ABSENCES

Under contracts negotiated with employee groups, individual employees have a vested right to receive payments for unused vacation leave amounts. A liability of $27,898 unused vacation leave exists at June 30, 2015.

C. 2009 QZAB BONDS

On July 30, 2009, the School District borrowed $156,065 of Qualified Zone Academy Bonds for the purchase of two school buses. The bonds were interest free through Shelby State Bank. The bank required five annual deposits into a QZAB bank account of $29,989 which earned interest at two percent. This account was used to pay the QZAB bonds beginning July 30, 2013. The balance due June 30, 2015, was $0.

D. 2011 QZAB BONDS

On May 25, 2011, the School District borrowed $130,871 of Qualified Zone Academy Bonds for the purchase of two school buses. The bonds are interest free through Shelby State Bank. The bank requires five annual deposits into a QZAB bank account of approximately $27,765 which earn interest at two percent. This account will be used to pay the QZAB bonds beginning May 25, 2015. The balance due June 30, 2015, was $104,697.

NOTE 11 - LONG TERM DEBT (CONTINUED)

D. 2011 QZAB BONDS (CONTINUED)

On June 30, 2011, the School District borrowed $84,260 of Qualified Zone Academy Bonds for the purchase of technology. The bonds are interest free through Shelby State Bank. The bank requires five annual deposits into a QZAB bank account of approximately $17,875 which earn interest at two percent. This account will be used to pay the QZAB bonds beginning June 30, 2015. The balance due June 30, 2015, was $67,408.

E. TEACHER BUY-OUT

The School District approved the buy-out of eight staff people during a prior fiscal year as a retirement incentive. The maximum to be paid is $50,000 for each person, over a four-year period. In the fiscal year ended June 30, 2015, there were 3 staff people that accepted buy-outs of $30,000, paid over 3 years. Total buy-outs payable at June 30, 2015, was $140,000.

F. SEVERANCE PAY

After a teacher has 20 years of service with the School District, they are eligible for severance pay upon retirement. The pay is calculated at $35 for each year of service. Total severance pay payable at June 30, 2015, was $13,510.

G. SCHOOL LOAN REVOLVING

The School District approved borrowing from the School Loan Revolving Fund to help pay the 2008 and 2009 bond issue payments until the SEV increases enough to provide adequate tax revenue to pay the bond payments (projected to be 2026). The initial loans are dated April 24, 2009, and interest accrues at a variable rate, which was 3.41183 % at June 30, 2015. Total amount outstanding at June 30, 2015, was $4,281,254.

H. 2008 SERIES A BONDS

The bonds are dated November 25, 2008, with principal due each May 1 and interest due each May 1 and November 1, beginning May 1, 2009, and ending May 1, 2038. The original amount of the bonds was $9,000,000. Interest rates vary from 3.75% to 5.75%. The proceeds of the bonds were used for construction projects. Total amount outstanding at June 30, 2015, was $8,105,000.

I. 2009 BONDS

The bonds are dated February 3, 2009, with principal due each May 1 and interest due each May 1 and November 1, beginning November 1, 2009, and ending May 1, 2038. The original amount of the bonds was $6,000,000. Interest rates vary from 3.0% to 5.0%. The proceeds of the bonds were used for construction projects. Total amount outstanding at June 30, 2015, was $5,195,000.

J. 2009 REFUNDING DEBT

The bonds are dated September 22, 2009, with principal due each May 1 and interest due each May 1 and November 1 beginning May 1, 2010, and ending May 1, 2025. Interest rates vary from 2% to 4.3%. The proceeds from these bonds were used to refund 1999 Refunding Bonds. The remaining bonds payable at June 30, 2015, were $3,215,000.

NOTE 11 - LONG TERM DEBT (CONTINUED)

K. 2013 QZAB BONDS

On June 26, 2013, the School District borrowed $85,806 of Qualified Zone Academy Bonds for the purchase of a school bus. The Bonds are interest free through Shelby State Bank. Annual payments of $17,161 are due beginning June 26, 2014, and continue through June 26, 2018. The balance due at June 30, 2015, was $51,484.

On June 30, 2013, the School District borrowed $95,905 of Qualified Zone Academy Bonds for the purchase of computer switches. The bonds are interest free through Shelby State Bank. Annual payments of $19,181 are due beginning June 26, 2014, and continue through June 26, 2018. The balance due at June 30, 2015, was $57,543.

L. 2014 QZAB BONDS

On June 18, 2014, the School District borrowed $86,996 of Qualified Zone Academy Bonds for the purchase of a bus. The bonds are interest free through Shelby State Bank. Annual payments of about $17,399 are due beginning June 15, 2015, and continue through June 15, 2019. The balance due at June 30, 2015, was $69,597.

NOTE 12 - DEFERRED INFLOWS OF RESOURCES

Components of deferred inflow (cash received for future program expenditures) include the following:

Program		
At Risk	$	28,797
Local Grants		7,437
	$	36,234

NOTE 13 - 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, 2015, no claims exist, and no provision has been entered into the accounting records.

NOTE 14 - NET PENSION LIABILITY

A. ORGANIZATION

The Michigan Public School Employees' Retirement System (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 Governor appointed board members consist of:

- Two active classroom teachers or other certified school personnel.
- One active member or retirant from a non-certified support position.
- One active school system superintendent.
- One active finance or operations (non-superintendent) member.
- One retirant from a classroom teaching position.
- One retirant from a finance or operations management position.
- One administrator or trustee of a community college that is a reporting unit of the System.
- Two from the general public, one with health insurance or actuarial science experience and one with institutional investment experience.
- One elected member of a reporting unit's board of control.

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, dental and vision coverage under the Michigan Public School Employees' Retirement Act. There are 685 participating employers. A list of employers is provided in the Statistical Section. The System is a qualified pension trust fund under section 401(a) of the Internal Revenue Code. By statute, employees of K-12 public School Districts, public school academies, district libraries, tax-supported community colleges and seven universities may be members. The seven universities are: Eastern Michigan, Central Michigan, Northern Michigan, Western Michigan, Ferris State, Michigan Technological and Lake Superior State. Employees, who first become employed by one of the seven universities on or after January 1, 1996, become members of an alternative plan.

The System's financial statements are included as a pension and other employee benefit trust fund in the State of Michigan Comprehensive Annual Financial Report.

The System is administered by the Office of Retirement Services 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.

NOTE 14 - NET PENSION LIABILITY (CONTINUED)

A. ORGANIZATION (CONTINUED)

MEMBERSHIP

At September 30, 2014, the System's membership consisted of the following:

Inactive plan members or their beneficiaries currently receiving benefits:	
Regular benefits	$ 181,489
Survivor benefits	16,855
Disability benefits	6,168
	204,512
Inactive plan members entitled to but not yet receiving benefits:	16,979
Active plan members:	
Vested	108,934
Non-vested	101,843
	210,777
Total plan members	$ 432,268

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. Retirement benefits for DB plan members are determined by final average compensation and years of service. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

A DB member or Pension Plus plan member who leaves Michigan public school employment may request a refund of his or her member contributions to the retirement system account. 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.

MEMBER CONTRIBUTIONS

Mandatory member contributions were phased out between 1974 and 1977, with the plan remaining noncontributory until January 1, 1987, when the Member Investment Plan (MIP) was enacted. MIP members enrolled prior to January 1, 1990, contribute at a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990, when it was reduced to 3.9%. Members first hired between January 1, 1990 and June 30, 2008, and returning members who did not work between January 1, 1987, through December 31, 1989, contribute at the following graduated permanently fixed contribution rates: 3% of the first $5,000; 3.6% of $5,001 through $15,000; 4.3% of all wages over $15,000. Members first hired July 1, 2008, or later including Pension Plus Plan members, contribute at the following graduated permanently fixed contribution rates: 3% of the first $5,000; 3.6% of $5,001 through $15,000; 6.4% of all wages over $15,000.

NOTE 14 - NET PENSION LIABILITY (CONTINUED)

A. ORGANIZATION (CONTINUED)

MEMBER CONTRIBUTIONS (CONTINUED)

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987, or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Actuarial rate of interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves public school service and no pension is payable, the member's accumulated contributions plus interest, if any, are refundable.

Under Public Act 300 of 2012, eligible members voluntarily chose between increasing, maintaining, or stopping their contributions to the pension fund as of the transition date. Their options are described in detail under Pension Reform 2012 beginning on page 23. Members who elected to increase their level of contribution contribute 4% (Basic Plan) or 7% (MIP); by doing so they maintain a 1.5% pension factor in their pension formula. Members who elected to maintain their level of contribution will receive a 1.25% pension factor in their pension formula for their years of service as of their transition date. Their contribution rates are described above. Members who elected to stop their contributions became participants in the Defined Contribution plan as of their transition date.

EMPLOYER CONTRIBUTIONS

Each School District or reporting entity is required to contribute the full actuarial funding contribution amount to fund pension benefits.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING AND PRESENTATION

The System's financial statements are prepared using the accrual basis of accounting. Contributions from the employers are recognized as revenue when due and payable. Benefits and refunds are recognized when due and payable in accordance with the terms of the System. The reserves are described below and details are provided in the supporting schedules.

GASB Statement No. 67, which was adopted during the year ended September 30, 2014, addresses accounting and financial reporting requirements for pension plans. The requirements for GASB Statement No. 67 require changes in presentation of the financial statements, notes to the financial statements, and required supplementary information.

Significant changes include an actuarial calculation of total and net pension liability. It also includes comprehensive footnote disclosure regarding the pension liability, the sensitivity of the net pension liability to the discount rate, and increased investment activity disclosures. The implementation of GASB Statement No. 67 did not significantly impact the accounting for accounts receivable and investment balances.

RESERVES

Reserve for Employee Contributions - This reserve represents active member contributions and interest less amounts transferred to the Reserve for Retired Benefit Payments for regular and disability retirement, amounts refunded to terminated members, and amounts transferred to the Reserve for Employer Contributions representing unclaimed funds.

NOTE 14 - NET PENSION LIABILITY (CONTINUED)

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RESERVES (CONTINUED)

Members no longer contribute to this reserve except to purchase eligible service credit or repay previously refunded contributions. At September 30, 2014, the balance in this reserve was $1.5 billion.

Reserve for Pension Plus Employee Contributions - This reserve represents active member contributions and interest less amounts transferred to the Reserve for Pension Plus Retired Benefit Payments for regular retirement, amounts refunded to terminated members, and amounts transferred to the Reserve for Pension Plus Employer Contributions representing unclaimed funds. This reserve was established under the provisions of Public Act 75 of 2010. At September 30, 2014, the balance in this reserve was $59.5 million.

Reserve for Member Investment Plan - This reserve represents MIP contributions and interest less refunds and transfers to the Reserve for Retired Benefit Payments. At September 30, 2014, the balance in this reserve was $4.7 billion.

Reserve for Employer Contributions - This reserve represents all reporting unit contributions, except payments for health benefits. Interest from the Reserve for Undistributed Investment Income reserve is credited annually. Amounts are transferred annually to the Reserve for Retired Benefit Payments to bring the balance of that reserve into balance with the actuarial present value of retirement allowances. At September 30, 2014, the balance in this reserve was ($25.8) billion.

Reserve for Pension Plus Employer Contributions - This reserve represents all reporting unit contributions for Pension Plus members, except payments for health benefits. Interest from the Reserve for Undistributed Investment Income reserve is credited annually at a rate of 7%. Amounts are transferred annually to the Reserve for Retired Pension Plus Benefit Payments to bring the balance of that reserve into balance with the actuarial present value of retirement allowances. This reserve was established under the provisions of Public Act 75 of 2010. At September 30, 2014, the balance in this reserve was $55.5 million.

Reserve for Retired Pension Plus Benefit Payments - This reserve represents payments of future retirement benefits to current Pension Plus retirees. At retirement, a member's accumulated contributions plus interest are transferred into this reserve. Monthly benefits, which are paid to the retiree, reduce this reserve. At the end of each fiscal year, an amount, determined by an annual actuarial valuation, is transferred from the Reserve for Pension Plus Employer Contributions to bring the balance of this reserve into balance with the actuarial present value of retirement allowances. This reserve was established under the provisions of Public Act 75 of 2010. Currently, there are no participants qualified to retire under this program. At September 30, 2014, the balance in this reserve was $0.

Reserve for Undistributed Investment Income - This reserve represents all investment earnings. Interest is transferred annually to the other reserves. Administrative expenses of the System are paid from the Reserve for Administrative Expenses, which is credited with amounts from the Reserve for Undistributed Investment Income to cover the expenses. For ease of reporting and understanding, the two reserves are presented as one reserve in the supporting schedules. Public Act 143 of 1997 established a stabilization subaccount within the Reserve for Undistributed Investment Income to which any over funding is credited. As of September 30, 2014, the balance in the subaccount was zero. At September 30, 2014, the balance in this reserve was $18.6 billion.

NOTE 14 - NET PENSION LIABILITY (CONTINUED)

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RESERVES (CONTINUED)

Reserve for Health (OPEB) Related Benefits - This reserve is credited with employee and employer contributions for retirees' health, dental, and vision benefits. Starting in fiscal year 2013, the employer contribution is based on a prefunded basis and represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liability (or funding excess) over a period not to exceed thirty years. In addition, in fiscal year 2014, federal funding for Medicare Part D and Employer Group Waiver Plan (EGWP) was paid directly to a third party vendor. The third party vendor uses the EGWP funding for any claims submitted and bills the system for any remaining claims outstanding. Premiums for health, dental and vision benefits are paid from this reserve. At September 30, 2014, the balance in this reserve was $3.5 billion.

REPORTING ENTITY

The System is a pension and other employee benefit trust fund of the State. As such, the System is considered part of the State and is included in the State's Comprehensive Annual Financial Report as a pension and other employee benefit trust fund. The System and its Board are not financially accountable for any other entities or other organizations. Accordingly, the System is the only entity included in this financial report.

BENEFIT PROTECTION

Public Act 100 of 2002 was passed by the Michigan Legislature to protect pension benefits of public employees from alienation (being transferred). Alienation is attachment, garnishment, levy, execution, bankruptcy or other legal process except for divorce orders or eligible domestic relation orders. The statutes governing the System contained an "antialienation" clause to provide for this protection; however, many smaller public pension systems did not have the benefit of this protection. Therefore, Public Act 100 of 2002 was passed to establish legal protection of pension assets that encompasses all public employees.

FAIR VALUE OF INVESTMENTS

Plan investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Corporate bonds not traded on a national or international exchange are based on equivalent values of comparable securities with similar yield and risk. The fair value of private investments is based on the net asset value reported in the financial statements of the respective investment entity. The net asset value is determined in accordance with governing documents of the investment entity, and is subject to an independent annual audit. Securities purchased with cash collateral under securities lending activities are recorded at estimated fair value. Other investments not having an established market are recorded at estimated fair value.

NOTE 14 - NET PENSION LIABILITY (CONTINUED)

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INVESTMENT INCOME

Dividend and interest income is recognized on the accrual basis. Fair value changes are recorded as investment income or loss. Purchases and sales of investments are recorded as of the trade date (the date upon which the transaction is initiated), except for purchase and sale of mortgages, real estate, and alternative investments which are recorded as of the settlement date (the date upon which the transaction is ultimately completed). The effect of recording such transactions as of the settlement date does not materially affect the financial statements.

COST OF ADMINISTERING THE SYSTEM

Each year a restricted general fund appropriation is requested to fund the on-going business operations of the System. These administrative costs are ultimately funded by the System through the regular transfer of funds from the System to the State's general fund based on either a direct cost or allocation basis depending on the nature of the expense. Costs of administering the System are financed by undistributed investment income of the System.

PROPERTY AND EQUIPMENT

Office space is leased from the State on a year to year basis. Office equipment is capitalized if the value exceeds $5,000. These assets are recorded at cost and are reported net of depreciation in the Statement of Pension Plan and Other Postemployment Benefit Plan Fiduciary Net Position. Such assets are depreciated on a straight-line basis over 10 years. As of September 30, 1998, all capitalized equipment was fully depreciated. No additional equipment has been capitalized for the System since that date.

RELATED PARTY TRANSACTIONS

Leases and Services - The System leases operating space and purchases certain administrative, data processing, legal and investment services from the State. The space and services are not otherwise available by competitive bid. The schedule below summarizes costs incurred by the System for such services.

CASH

At September 30, 2014, the System had $246.7 million in a common cash investment pool maintained for various State operating funds. The participating funds in the common cash pool earn interest at various rates depending upon prevailing short-term interest rates. Earnings from these activities amounted to ($0.6) thousand for the year ended September 30, 2014.

C. CONTRIBUTIONS AND FUNDING STATUS

The majority of the members currently participate on a contributory basis, as described above under "Benefits Provided." Reporting units are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of members and retiree Other Post-Employment Benefits (OPEB). Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

NOTE 14 - NET PENSION LIABILITY (CONTINUED)

C. CONTRIBUTIONS AND FUNDING STATUS (CONTINUED)

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. For retirement and OPEB benefits, the unfunded(overfunded) actuarial accrued liability as of the September 30, 2014 valuation will be amortized over a 22 year period for the 2014 fiscal year. The schedule below summarizes pension contribution rates in effect for fiscal year 2014.

Pension Contribution Rates		
Benefit Structure	Member	Employer
Basic	0.0 - 4.0%	18.34 - 19.61%
Member Investment Plan	3.0 - 7.0%	18.34 - 19.61%
Pension Plus	3.0 - 6.4%	18.11%
Defined Contribution	0.0%	15.44 - 16.61%

The System may reconcile with actuarial requirements annually. If the system reconciles in a year, any funding excess or deficiency for pension benefits is smoothed over a maximum of 5 years, with at least one-fifth (20%) of the funding excess or deficiency included in the subsequent year's contribution. This payment is not recognized as a payable or receivable in the accounting records. If the System does not reconcile in a year, any funding excess or deficiency for pension benefits is accounted for in subsequent required contributions over the remaining amortization period. For fiscal year 2014, the System did not reconcile.

In May 1996, the Internal Revenue Service issued a private letter ruling allowing the System's members to purchase service credit and repay refunds using tax-deferred (pre-tax) dollars. The program was implemented in fiscal year 1998, and payments began in fiscal year 1999.

The program allows members to purchase service credit and repay refunds on a tax-deferred basis. Members sign an irrevocable agreement that identifies the contract duration, monthly payment, total contract amount and years of service credit being purchased. The duration of the contract can range from 1 to 20 years. The amounts are withheld from members' paychecks and are treated as employer pick-up contributions pursuant to Internal Revenue Code Section 414(h). At September 30, 2014, there were 16,503 agreements. The agreements were discounted using the assumed actuarial rate of return of 8% for September 30, 2014. The average remaining length of a contract was approximately 6.0 years for 2014. The short-term receivable was $29.7 million and the discounted long-term receivable was $83.6 million at September 30, 2014.

NOTE 14 - NET PENSION LIABILITY (CONTINUED)

D. NET PENSION LIABILITY - NON-UNIVERSITY

MEASUREMENT OF THE MPSERS NET PENSION LIABILITY

The plan's net pension liability is to be measured as the total pension liability, less the amount of the pension plan's fiduciary net position. In actuarial terms, this will be the accrued liability less the market value of assets (not the smoothed actuarial value of assets that is often encountered in actuarial valuations performed to determine the employer's contribution requirement).

MPSERS (PLAN) NET PENSION LIABILITY - NON-UNIVERSITY

As of September 30, 2014:

Total Pension Liability	$ 65,160,887,182
Plan Fiduciary Net Position	43,134,384,072
Net Pension Liability	$ 22,026,503,110
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	66.20%
Net Pension Liability as a Percentage of Covered-Employee Payroll	250.11%

Year 1 MPSERS GASB 68 implementation recognizes a 0.00% change in the reporting unit's proportionate share between beginning net pension liability and ending net pension liability.

As of October 1, 2013:

Total Pension Liability	$ 62,859,499,994
Plan Fiduciary Net Position	39,427,686,072
Net Pension Liability	$ 23,431,813,922

PROPORTIONATE SHARE OF REPORTING UNIT'S NET PENSION LIABILITY

At September 30, 2014, the Reporting Unit reported a liability of $13,430,779 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2013. The Reporting Unit's proportionate share of the net pension liability was based on statutorily required contributions in relation to all reporting units' statutorily required contributions for the measurement period. At September 30, 2014, the Reporting Unit's proportionate share percent was 0.06098 percent.

NOTE 14 - NET PENSION LIABILITY (CONTINUED)

D. NET PENSION LIABILITY - NON-UNIVERSITY (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 weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2014, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return*
Domestic Equity Pools	28.0%	4.8%
Alternative Investment Pools	18.0%	8.5%
International Equity	16.0%	6.1%
Fixed Income Pools	10.5%	1.5%
Real Estate and Infrastructure Pools	10.0%	5.3%
Absolute Return Pools	15.5%	6.3%
Short-Term Investment Pools	2.0%	-0.2%
	100.0%	

*Long-term rate of return does not include 2.5% inflation

RATE OF RETURN

For the fiscal year ended September 30, 2014, the annual money-weighted rate of return on pension plan investment, net of pension plan investment expense, was 12.58%. 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 8.0% was used to measure the total pension liability (7.0% for the Pension Plus plan, a hybrid plan). This discount rate was based on the long term expected rate of return on pension plan investments of 8.0% (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 14 - NET PENSION LIABILITY (CONTINUED)

D. NET PENSION LIABILITY - NON-UNIVERSITY (CONTINUED)

SENSITIVITY OF THE NET PENSION LIABILITY TO CHANGES IN DISCOUNT RATE

As required by GASB Statement No. 68, the following presents the reporting unit's proportionate share of the net pension liability, calculated using a discount rate of 8.0% (7.0% for the Pension Plus Plan), as well as what the reporting unit's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher:

1% Decrease (Non-Hybrid/Hybrid) 7.0%/6.0%	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid) 8.0%/7.0%	1% Increase (Non-Hybrid/Hybrid) 9.0%/8.0%
$ 17,707,313	$ 13,430,779	$ 9,827,736

TIMING OF THE VALUATION

An actuarial valuation to determine the total pension liability is required to be performed every year. If the actuarial valuation is not calculated as of the plan's fiscal year end, the total pension liability is required to be rolled forward from the actuarial valuation date to the pension plan's fiscal year end.

The total pension liability as of September 30, 2014, is based on the results of an actuarial valuation date of September 30, 2013, and rolled forward using generally accepted actuarial procedures.

ACTUARIAL VALUATIONS AND ASSUMPTIONS

Actuarial valuations for the pension plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions (ARC) are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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 14 - NET PENSION LIABILITY (CONTINUED)

D. NET PENSION LIABILITY - NON-UNIVERSITY (CONTINUED)

ACTUARIAL VALUATIONS AND ASSUMPTIONS (CONTINUED)

Additional information as of the latest actuarial valuation follows:

Actuarial Assumptions	
Wage Inflation Rate	3.5%
Investment Rate of Return	
MIP and Basic Plans (Non-Hybrid)	8.0%
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
Healthcare Cost Trend Rate	8.5% 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. 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.

NOTES

Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2014, is based on the results of an actuarial valuation date of September 30, 2013, 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: 4.8457

Recognition period for assets in years is 5.0000

Full actuarial assumptions are available in the 2014 MPSERS Comprehensive Annual Financial Report.

NOTE 14 - NET PENSION LIABILITY (CONTINUED)

E. PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INLOWS OF RESOURCES TO PENSIONS - NON-UNIVERSITY

For the year ended June 30, 2015, the Reporting Unit recognized total pension expense of $1,087,931. At June 30, 2015, the Reporting Unit 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	$ -	$ -
Changes in Assumptions	495,567	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	1,484,778
Changes in Proportion and Differences between Reporting Unit Contributions and Proportionate share of Contributions	11	575
Reporting Unit Contributions Subsequent to the Measurement Date	1,059,742	-
Total	$ 1,555,320	$ 1,485,353

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:	
2015	$ (242,482)
2016	(242,482)
2017	(242,482)
2018	(262,340)
	$ (989,786)

NOTE 15 - ADOPTION OF NEW ACCOUNTING POLICIES

Effective July 1, 2014, the School District adopted the provisions of the following accounting pronouncement. In June 2012, the GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that will be recorded on the government-wide, proprietary, and discretely presented component units statements will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). Due to this change in accounting policy, the Net Position - Beginning of Year has been changed on the Governement-Wide Statement of Activities to reflect the adoption of GASB 68. The following is a reconciliation between the Net Position - End of Year on the June 30, 2014, financial statements and the Net Position - Beginning of Year on the June 30, 2015 financial statements:

June 30, 2014, Net Position - End of Year	$ (3,543,291)
GASB 68 Adjustment	(14,846,712)
July 1, 2014, Net Position - Beginning of Year	$ (18,390,003)

NOTE 16 - UPCOMING ACCOUNTING PRONOUNCEMENTS

In February 2015, the GASB issued Statement No. 72, Fair Value Measurement and Application. Statement No. 72 requires investments to be measured at fair value. The statement requires a government to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. The statement establishes a hierarchy of inputs to valuation techniques used to measure fair value. The statement requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. The requirements of this statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. The School District is currently evaluating the impact this standard will have on the financial statements when adopted. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2015.

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

	2015
A. Reporting Unit's Proportion of Net Pension Liability (%)	0.06098%
B. Reporting Unit's Proportionate Share of Net Pension Liability	$13,430,779
C. Reporting Unit's Covered-Employee Payroll	$ 5,101,036
D. Reporting Unit's Proportionate Share of Net Pension Liability as a Percentage of Its Covered-Employee Payroll	263.30%
E. Plan Fiduciary Net Position as a Percentage of Total Pension Liability	66.20%

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

	2015
A. Statutorily Required Contributions	$ 1,289,645
B. Contributions in Relation to Statutorily Required Contributions	1,289,645
C. Contribution Deficiency (Excess)	$ -
D. Reporting Unit's Covered-Employee Payroll	$ 5,101,036
E. Contributions as a Percentage of Covered-Employee Payroll	25.28%

Changes of Benefit Terms

There were no changes of benefit terms in 2015.

Changes of Assumptions

There were no changes of benefit assumptions in 2015.

GENERAL FUND

YEAR ENDED JUNE 30, 2015

	Budgeted Amounts Original	Budgeted Amounts Final	Actual (Budgetary Basis)	Variance
REVENUE				
Local Sources	$ 984,571	$ 991,829	$ 995,685	$ 3,856
Inter-District Sources	232,996	175,432	175,432	-
State Sources	8,527,975	8,138,224	8,108,360	(29,864)
Federal Sources	621,250	593,594	549,461	(44,133)
Other Sources	-	14,700	15,900	1,200
TOTAL REVENUE	10,366,792	9,913,779	9,844,838	(68,941)
EXPENDITURES				
Instruction				
Basic Programs	5,955,503	5,684,275	5,635,152	49,123
Added Needs	1,428,299	1,432,614	1,385,926	46,688
Adult/Continuing Education	75,883	33,448	33,447	1
Supporting Services				
Pupil	265,267	282,698	279,870	2,828
Instructional Staff	147,863	79,330	74,526	4,804
Administration	570,973	563,750	561,429	2,321
Business Services	265,610	263,610	260,601	3,009
Operations	685,236	533,165	533,165	-
Transportation	646,300	490,633	485,370	5,263
Information Management	211,429	197,124	195,046	2,078
Athletics	201,319	195,879	195,530	349
Community Services	31,468	13,283	10,555	2,728
Capital Outlay	-	132,245	131,476	769
Debt Service	147,433	159,586	159,586	-
Other Uses - Operating Transfers	-	-	-	-
TOTAL EXPENDITURES	10,632,583	10,061,640	9,941,679	119,961
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES AND OTHER USES	(265,791)	(147,861)	(96,841)	51,020
BUDGETARY FUND BALANCE- July 1, 2014	1,178,425	1,178,425	1,178,425	-
BUDGETARY FUND BALANCE- June 30, 2015	$ 912,634	$ 1,030,564	$ 1,081,584	$ 51,020

FOOD SERVICE FUND

YEAR ENDED JUNE 30, 2015

	Budgeted Amounts		Actual	Variance
	Original	Final	(Budgetary Basis)	
REVENUE				
Local Sources	$ 58,673	$ 55,950	$ 56,440	$ 490
State Sources	16,808	16,000	16,084	84
Federal Sources	414,048	413,678	413,865	187
Other Sources	39,156	37,061	37,248	187
TOTAL REVENUE	528,685	522,689	523,637	948
EXPENDITURES				
Instruction				
Basic Programs	-	-	-	-
Added Needs	-	-	-	-
Adult/Continuing Education	-	-	-	-
Supporting Services				
Pupil	554,169	502,128	496,027	6,101
Instructional Staff	-	-	-	-
Administration	-	-	-	-
Business Services	-	-	-	-
Operations	-	-	-	-
Transportation	-	-	-	-
Information Mangement	-	-	-	-
Athletics	-	-	-	-
Community Services	-	-	-	-
Capital Outlay	30,000	60,000	59,851	149
Debt Service	-	-	-	-
Other Uses - Operating Transfers	-	-	-	-
TOTAL EXPENDITURES	584,169	562,128	555,878	6,250
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES AND OTHER USES	(55,484)	(39,439)	(32,241)	7,198
BUDGETARY FUND BALANCE- July 1, 2014	212,863	212,863	212,863	-
BUDGETARY FUND BALANCE- June 30, 2015	$ 157,379	$ 173,424	$ 180,622	$ 7,198

OTHER SUPPLEMENTAL INFORMATION

GENERAL FUND

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

YEAR ENDED JUNE 30, 2015

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUE			
LOCAL SOURCES			
Current Property Tax Levy	$ 854,263	$ 854,288	$ 25
Interest and Penalties - Delinquent Taxes	206	206	-
Contributions from Private Sources	44,513	46,826	2,313
Sale of School Property	8,037	8,037	-
Interest Earned	1,051	1,230	179
Community Service	-	-	-
Transportation	16,840	17,513	673
Athletics	48,900	48,910	10
Other	18,019	18,675	656
TOTAL LOCAL SOURCES	991,829	995,685	3,856
INTER-DISTRICT SOURCES			
ISD	155,432	155,432	-
MSRP Reimbursement	20,000	20,000	-
TOTAL INTER-DSITRICT SOURCES	175,432	175,432	-
STATE SOURCES			
State Aid	6,981,081	6,982,636	1,555
Special Education	198,605	198,605	-
Adult Education	11,411	9,263	(2,148)
At Risk	343,235	314,439	(28,796)
Tech Readiness	21,881	21,590	(291)
Best Practices	54,693	54,693	-
MPSERS	455,120	454,961	(159)
MPSERS Offset	72,198	72,173	(25)
TOTAL STATE SOURCES	8,138,224	8,108,360	(29,864)
FEDERAL SOURCES			
IDEA	135,768	135,768	-
Title I A	331,572	315,511	(16,061)
Title II A	81,507	54,074	(27,433)
Title VI B	21,521	20,880	(641)
Adult Basic Education	12,196	12,197	1
Schools and Road	7,045	7,046	1
QZAB Bond Interest	3,985	3,985	-
TOTAL FEDERAL SOURCES	593,594	549,461	(44,133)
TOTAL REVENUE	$ 9,899,079	$ 9,828,938	$ (70,141)

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

YEAR ENDED JUNE 30, 2015

	Budget	Actual	Variance Favorable (Unfavorable)
EXPENDITURES			
INSTRUCTION			
BASIC PROGRAMS			
Elementary School	$ 2,599,717	$ 2,552,171	$ 47,546
Middle School	1,529,912	1,528,810	1,102
High School	1,554,646	1,554,171	475
TOTAL BASIC PROGRAMS	5,684,275	5,635,152	49,123
ADDED NEEDS			
Special Education	868,576	864,378	4,198
Compensatory Education	564,038	521,548	42,490
TOTAL ADDED NEEDS	1,432,614	1,385,926	46,688
ADULT/CONTINUING EDUCATION			
Adult Basic Education	21,082	21,082	-
High School Completion	12,366	12,365	1
TOTAL ADULT/CONTINUING EDUCATION	33,448	33,447	1
TOTAL INSTRUCTION	7,150,337	7,054,525	95,812
SUPPORTING SERVICES			
PUPIL			
Guidance	205,698	204,489	1,209
Health Services	39,842	38,226	1,616
Social Work Services	37,158	37,155	3
TOTAL PUPIL	282,698	279,870	2,828
INSTRUCTIONAL STAFF			
Imrpovement of Instruction	23,156	21,439	1,717
Educational Media Services	29,765	29,158	607
Computer Assisted Instruction	2,324	2,324	-
Supervision and Direction of Instruuction	21,658	19,178	2,480
GED Testing Center	2,427	2,427	-
TOTAL INSTRUCTIONAL STAFF	79,330	74,526	4,804
ADMINISTRATION			
Board of Education	52,408	51,459	949
Executive Administation	145,006	144,288	718
Principals Office	364,836	364,203	633
School Administration	1,500	1,479	21
TOTAL ADMINISTRATION	563,750	561,429	2,321
BUSINESS SERVICES			
Fiscal Services	192,087	191,341	746
Internal Services	-	-	-
Other Business Services	71,523	69,260	2,263
TOTAL BUSINESS SERVICES	$ 263,610	$ 260,601	$ 3,009

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

YEAR ENDED JUNE 30, 2015

	Budget	Actual	Variance Favorable (Unfavorable)
EXPENDITURES (CONTINUED)			
SUPPORTING SERVICES (CONTINUED)			
OPERATIONS AND MAINTENANCE			
Operating Building Services	$ 533,165	$ 533,165	$ -
Security Services	-	-	-
TOTAL OPERATIONS AND MAINTENANCE	533,165	533,165	-
TRANSPORTATION	490,633	485,370	5,263
INFORMATION MANAGEMENT			
Staff/Personnel Services	3,985	3,851	134
Information Management Services	156,906	154,962	1,944
Pupil Accounting	8,734	8,734	-
Other Central Services	27,499	27,499	-
TOTAL INFORMATION MANAGEMENT	197,124	195,046	2,078
ATHLETICS	195,879	195,530	349
TOTAL SUPPORTING SERVICES	2,606,189	2,585,537	20,652
COMMUNITY SERVICES			
Community Recreation	11,077	9,760	1,317
Community Activities	2,006	795	1,211
Custody and Care of Children	200	-	200
TOTAL COMMUNITY SERVICES	13,283	10,555	2,728
DEBT SERVICE	159,586	159,586	-
CAPITAL OUTLAY	132,245	131,476	769
TOTAL EXPENDITURES	10,061,640	9,941,679	119,961
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	(162,561)	(112,741)	(190,102)
OTHER FINANCING SOURCES (USES)			
Indirect Costs	14,700	15,900	(1,200)
Loan Proceeds	-	-	-
Operating Transfers In	-	-	-
Operating Transfers (Out)	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	14,700	15,900	(1,200)
EXCESS OF REVENUE AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	$ (147,861)	(96,841)	$ (191,302)
FUND BALANCE - JULY 1, 2014		1,178,425	
FUND BALANCE - JUNE 30, 2015		$ 1,081,584	

SPECIAL REVENUE FUND

COMPARATIVE BALANCE SHEET

JUNE 30, 2015 AND 2014

	2015	2014
ASSETS		
Cash and Investments	$ 91,546	$ 82,559
Due from Other Governmental Units	-	23,031
Due from Other Funds	99,242	109,913
Prepaid Expenses	-	-
Inventory	6,121	2,156
TOTAL ASSETS	$ 196,909	$ 217,659
LIABILITIES AND FUND BALANCE		
LIABILITIES		
Accounts Payable	$ 16,287	$ 4,796
Accrued Salaries	-	-
Accrued Expenses	-	-
Due to Other Funds	-	-
TOTAL LIABILITIES	16,287	4,796
FUND BALANCE		
Non-Spendable	6,121	2,156
Restricted	174,501	210,707
TOTAL FUND BALANCE	180,622	212,863
TOTAL LIABILITIES AND FUND BALANCE	$ 196,909	$ 217,659

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

YEAR ENDED JUNE 30, 2015

	Budget	Actual	Variance Favorable (Unfavorable)	Prior Year Actual
REVENUE				
Hot Lunch Receipts				
Students	$ 47,670	$ 48,152	$ 482	$ 52,032
Adults	1,330	1,335	5	1,168
Ala Carte	6,950	6,953	3	9,209
State Aid	16,000	16,084	84	16,808
Federal Aid	386,000	386,664	664	382,182
Federal USDA Commoditities in Kind	27,678	27,201	(477)	27,398
Other Income	37,000	37,182	182	42,028
Interest Income	61	66	5	55
TOTAL REVENUE	522,689	523,637	948	530,880
EXPENDITURES				
Salaries	154,986	154,977	9	124,539
Fringe Benefits	58,223	58,616	(393)	60,255
Professional Services	500	501	(1)	1,400
Contracted Services	12,326	12,234	92	35,148
Food and Supplies	255,940	248,153	7,787	247,849
Professional Development	-	-	-	412
Dues and Fees	1,498	1,721	(223)	1,181
Miscellaneous	340	358	(18)	889
Postage	115	114	1	85
Repairs	-	-	-	230
Utilities	3,500	3,453	47	9,117
Capital Outlay	60,000	59,851	149	1,670
TOTAL EXPENDITURES	547,428	539,978	7,450	482,775
EXCESS REVENUE OVER (UNDER) EXPENDITURES	(24,739)	(16,341)	8,398	48,105
OTHER FINANCING SOURCES (USES)				
Indirect Costs	(14,700)	(15,900)	1,200	-
Operating Tranfers In	-	-	-	-
Operating Tranfers (Out)	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(14,700)	(15,900)	1,200	-
EXCESS REVENUE AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND AND OTHER USES	$ (39,439)	(32,241)	$ 9,598	$ 48,105
FUND BALANCE - BEGINNING OF YEAR		212,863		
FUND BALANCE - END OF YEAR		$ 180,622		

DEBT RETIREMENT FUNDS

COMBINING BALANCE SHEET

JUNE 30, 2015

	QZAB	Refund 2009	2009	2008A	Total
ASSETS					
Cash and Investments	$ 127,781	$ 57,550	$ 31,569	$ 45,378	$ 262,278
Due from Other Funds	-	-	-	-	-
TOTAL ASSETS	$ 127,781	$ 57,550	$ 31,569	$ 45,378	$ 262,278
LIABILITIES AND FUND EQUITY					
LIABILITIES					
Accounts Payable	$ -	$ -	$ -	$ -	$ -
Due to Other Funds	-	-	-	-	-
TOTAL LIABILITIES	-	-	-	-	-
FUND EQUITY					
Fund Balance	127,781	57,550	31,569	45,378	262,278
TOTAL FUND EQUITY	127,781	57,550	31,569	45,378	262,278
TOTAL LIABILITIES AND FUND EQUITY	$ 127,781	$ 57,550	$ 31,569	$ 45,378	$ 262,278

COMBINING STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES

YEAR ENDED JUNE 30, 2015

	QZAB	Refund 2009	2009	2008A	Actual
REVENUE					
Current Taxes	$ -	$ 358,624	$ 234,940	$ 337,833	$ 931,397
Delinquent Taxes	-	-	-	-	-
Interest and Penalties on on Delinquent Property Taxes	-	-	-	-	-
Earned Interest	4,383	214	8	12	4,617
State Aid Revenue	-	-	-	-	-
Miscellaneous	72,048	-	-	-	72,048
TOTAL REVENUE	76,431	358,838	234,948	337,845	1,008,062
EXPENDITURES					
Principal on Bonds	167,878	350,000	170,000	205,000	892,878
Interest on Bond	-	136,686	226,905	403,399	766,990
Principal on School Loan Rev. Fund	-	-	-	-	-
Interest on School Loan Rev. Fund	-	-	-	-	-
Agent Fees and Other	-	150	150	150	450
TOTAL EXPENDITURES	167,878	486,836	397,055	608,549	1,660,318
EXCESS REVENUE OVER (UNDER) EXPENDITURES	(91,447)	(127,998)	(162,107)	(270,704)	(652,256)
OTHER FINANCING SOURCES (USES)					
Bond Proceeds	-	129,984	158,788	266,450	555,222
Operating Tranfers In	-	-	-	-	-
Operating Tranfers (Out)	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	129,984	158,788	266,450	555,222
EXCESS REVENUE AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(91,447)	1,986	(3,319)	(4,254)	(97,034)
FUND BALANCE - BEGINNING OF YEAR	219,228	55,564	34,888	49,632	359,312
FUND BALANCE - END OF YEAR	$ 127,781	$ 57,550	$ 31,569	$ 45,378	$ 262,278

AGENCY FUND

STATEMENT OF ASSETS AND LIABILITIES

JUNE 30, 2015

ASSETS		
Cash and Investments	$	87,473
TOTAL ASSETS	$	87,473
LIABILITIES		
Due to Student Groups	$	87,272
Due to Others		201
TOTAL LIABILITIES	$	87,473

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

YEAR ENDED JUNE 30, 2015

	July 1, 2014	Receipts	Disbursements	June 30, 2015
ASSETS				
Cash	$ 72,572	$ 182,459	$ 167,558	$ 87,473
LIABILITIES				
Due to Others				
Community Education	$ 442	$ -	$ 241	$ 201
Due to Student Groups	72,130	182,459	167,317	87,272
	$ 72,572	$ 182,459	$ 167,558	$ 87,473

DETAILED STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

YEAR ENDED JUNE 30, 2015

ACTIVITY	Balance July 1, 2014	Receipts	Disbursements	Balance June 30, 2015
Due to Others				
Community Education Checking	$ 442	$ -	$ 241	$ 201
Due to Student Groups				
Elementary				
Elementary Art Mural	$ 78	$ 2,662	$ 239	$ 2,501
Elementary Library Fund	574	631	231	974
Elementary PE Classes	438	2,467	2,845	60
Elementary Playground	563	-	-	563
Elementary School Store	10	1,041	1,051	-
Elementary Special Ed Act	-	99	62	37
Summer Camp	100	260	354	6
Elementary Literacy Activity	213	-	-	213
Class of 2023	5	2,132	2,133	4
Class of 2024	132	2,328	2,376	84
Class of 2025	44	382	388	38
Class of 2026	1	1,100	1,099	2
Class of 2027	-	1,424	1,312	112
Total Elemtary	2,158	14,526	12,090	4,594
Middle School				
5th Grade School Store	1,254	1,631	866	2,019
5th and 6th Grade Student Council	404	-	-	404
7th and 8th Grade Student Council	267	-	-	267
8th Grade Reserve Account	4	-	-	4
7th Grade Reserve Account	1,177	1,468	1,527	1,118
6th Grade Reserve Account	2,402	1,027	812	2,617
Amusement Park Physics	122	-	-	122
MS Carnival	1,343	-	53	1,290
MS Cross Country	-	41	-	41
MS Rocketry Club	2	-	-	2
MS Track and Field	28	-	-	28
MS Wrestling	53	-	-	53
MS Yearbook	286	-	-	286
Class of 2019	1,503	7,939	7,642	1,800
Class of 2020	574	6,373	5,858	1,089
Class of 2021	433	21,110	12,162	9,381
Class of 2022	246	7,092	6,876	462
Total Middle School	$ 10,098	$ 46,681	$ 35,796	$ 20,983

DETAILED STATEMENT OF CHANGES IN ASSETS AND LIABILITIES (CONTINUED)

YEAR ENDED JUNE 30, 2015

	Balance July 1, 2014	Receipts	Disbursements	Balance June 30, 2015
Due to Student Groups (Continued)				
High School				
Band	$ 2,859	$ 26,668	$ 25,803	$ 3,724
HS Art/Photography	759	29	12	776
Choir	143	-	-	143
Color Guard	341	-	-	341
Drama	572	2,350	1,807	1,115
HS Library Fund	231	50	10	271
HS Scholarship Fund	997	752	752	997
HS Student Council	76	334	251	159
Journalism	135	-	-	135
National Honor Society	32	95	77	50
Panther Yearbook	4,105	4,734	6,208	2,631
Ski Club	506	-	290	216
Wild Joe Cappuccino	401	-	-	401
Class of 2014	177	-	177	-
Class of 2015	3,366	-	1,451	1,915
Class of 2016	3,607	2,935	2,936	3,606
Class of 2017	1,978	545	672	1,851
Class of 2018	909	40	50	899
Total High School	21,194	38,532	40,496	19,230
High School Athletics				
Baseball Club	2,243	1,832	2,117	1,958
Boys Basketball	981	2,997	1,734	2,244
Cheerleaders Basketball	-	386	-	386
Cheerleaders Football	739	4,195	2,482	2,452
Cheerleading (Enrichment)	522	1,540	2,031	31
CE Youth Basketball	596	-	529	67
CE 7/8 Rocket Football	556	221	-	777
Cross Country	184	3,143	2,219	1,108
Football Club	730	25,126	15,822	10,034
Girls Softball	519	4,195	4,375	339
Girls Varsity Basketball	1,213	4,339	4,631	921
Golf Team	571	200	743	28
HS Boys Track	973	311	345	939
HS Girls Track	1,435	1,076	1,767	744
Mat Maids	196	-	-	196
Varsity Club	3,718	8,831	7,648	4,901
Varsity Wrestling	2,582	2,949	1,770	3,761
Wrestling Pink Out	264	2,878	3,026	116
Volleyball Club	1,895	18,162	19,358	699
Weight Room Equipment	534	-	439	95
Total High School Athletics	$ 20,451	$ 82,381	$ 71,036	$ 31,796

DETAILED STATEMENT OF CHANGES IN ASSETS AND LIABILITIES (CONTINUED)

YEAR ENDED JUNE 30, 2015

	Balance July 1, 2014	Receipts	Disbursements	Balance June 30, 2015
Due to Student Groups (Continued)				
Community Education				
Community Ed Art Club	$ 29	$ -	$ 29	$ -
50 Plus Club	72	-	72	-
Total Community Education	101	-	101	-
Central Office				
Key Card Replacement	40	30	10	60
District Literacy Bus	12,150	309	5,428	7,031
Total Central Office	12,190	339	5,438	7,091
Other				
Interest Earned	1,536	-	303	1,233
Elementary Checking	2,364	-	1,165	1,199
High School Checking	1,363	-	755	608
Middle School Checking	675	-	137	538
Total Other	5,938	-	2,360	3,578
Total Due to Student Groups	72,130	182,459	167,317	87,272
TOTAL	$ 72,572	$ 182,459	$ 167,558	$ 87,473

STATEMENTS OF BONDED INDEBTEDNESS

YEAR ENDED JUNE 30, 2015

2009 REFUNDING DEBT

Issue Dated February 3, 2009, in the amount of:	$ 5,430,000
Less:	
Bonds Paid in Prior Years	1,865,000
Bonds Due and Paid in May 1, 2015	350,000
Balance Outstanding - June 30, 2015	$ 3,215,000

Balance Payable as Follows:

Year	Rate	Interest	Principal	Total
2016	3.250%	$ 126,186	$ 345,000	$ 471,186
2017	3.500%	114,974	335,000	449,974
2018	3.750%	103,249	335,000	438,249
2019	4.000%	90,686	325,000	415,686
2020	4.000%	77,686	325,000	402,686
2021	4.000%	64,686	315,000	379,686
2022	4.125%	52,086	315,000	367,086
2023	4.200%	39,093	315,000	354,093
2024	4.250%	25,863	305,000	330,863
2025	4.300%	12,900	300,000	312,900
		$ 707,409	$ 3,215,000	$ 3,922,409

YEAR ENDED JUNE 30, 2015

2009 DEBT

Issue Dated February 3, 2009, in the amount of:	$ 6,000,000
Less:	
Bonds Paid in Prior Years	635,000
Bonds Due and Paid in May 1, 2015	170,000
Balance Outstanding - June 30, 2015	$ 5,195,000

Balance Payable as Follows:

Year	Rate	Interest	Principal	Total
2016	3.000%	$ 218,955	$ 190,000	$ 408,955
2017	3.000%	213,030	205,000	418,030
2018	3.250%	206,543	210,000	416,543
2019	3.500%	199,367	215,000	414,367
2020	4.000%	191,305	215,000	406,305
2021	4.000%	182,605	220,000	402,605
2022	4.000%	173,805	220,000	393,805
2023	4.000%	164,905	225,000	389,905
2024	4.000%	155,905	225,000	380,905
2025	4.000%	146,905	225,000	371,905
2026	4.000%	137,805	230,000	367,805
2027	4.200%	128,375	230,000	358,375
2028	4.250%	118,658	230,000	348,658
2029	4.300%	108,825	230,000	338,825
2030	5.000%	98,005	235,000	333,005
2031	5.000%	86,255	235,000	321,255
2032	5.000%	74,505	235,000	309,505
2033	5.000%	62,755	235,000	297,755
2034	4.800%	51,240	235,000	286,240
2035	4.800%	39,960	235,000	274,960
2036	4.800%	28,680	235,000	263,680
2037	4.800%	17,280	240,000	257,280
2038	4.800%	5,760	240,000	245,760
		$ 2,811,428	$ 5,195,000	$ 8,006,428

YEAR ENDED JUNE 30, 2015

2008 DEBT (SERIES A)

Issue Dated November 25, 2008, in the amount of:	$ 9,000,000
Less:	
Bonds Paid in Prior Years	690,000
Bonds Due and Paid in May 1, 2015	205,000
Balance Outstanding - June 30, 2015	$ 8,105,000

Balance Payable as Follows:

Year	Rate	Interest	Principal	Total
2016	5.500%	$ 386,074	$ 220,000	$ 606,074
2017	5.500%	373,286	245,000	618,286
2018	5.500%	359,124	270,000	629,124
2019	4.000%	345,899	290,000	635,899
2020	4.200%	333,694	305,000	638,694
2021	4.250%	320,489	320,000	640,489
2022	4.300%	306,594	330,000	636,594
2023	4.400%	291,909	345,000	636,909
2024	4.450%	276,198	365,000	641,198
2025	4.500%	259,526	380,000	639,526
2026	4.500%	242,426	380,000	622,426
2027	5.000%	224,376	380,000	604,376
2028	4.650%	206,041	380,000	586,041
2029	5.000%	187,706	380,000	567,706
2030	5.000%	168,581	385,000	553,581
2031	5.000%	149,206	390,000	539,206
2032	5.000%	129,706	390,000	519,706
2033	5.000%	110,331	385,000	495,331
2034	5.125%	90,713	390,000	480,713
2035	5.125%	70,725	390,000	460,725
2036	5.125%	50,609	395,000	445,609
2037	5.125%	30,366	395,000	425,366
2038	5.125%	10,122	395,000	405,122
		$ 4,923,701	$ 8,105,000	$ 13,028,701

YEAR ENDED JUNE 30, 2015

2009 QZAB DEBT

Issue Dated July 30, 2009, in the amount of:	$	156,065
Less:		
Bonds Paid in Prior Years		31,213
Bonds Due and Paid in July 30, 2014		124,852
Balance Outstanding - June 30, 2015	$	-

2011 QZAB DEBT

Issue Dated May 25, 2011, in the amount of:	$	130,871
Less:		
Bonds Paid in Prior Years		-
Bonds Due and Paid in July 30, 2014		26,174
Balance Outstanding - June 30, 2015	$	104,697

Balance Payable as Follows:

Year	Rate	Interest	Principal	Total
2016	0.000%	$ -	$ 104,697	$ 104,697

Issue Dated June 30, 2011, in the amount of:	$	84,260
Less:		
Bonds Paid in Prior Years		-
Bonds Due and Paid in July 30, 2014		16,852
Balance Outstanding - June 30, 2015	$	67,408

Balance Payable as Follows:

Year	Rate	Interest	Principal	Total
2016	0.000%	$ -	$ 67,408	$ 67,408

YEAR ENDED JUNE 30, 2015

2012 QZAB DEBT

Issue Dated June 20, 2012, in the amount of:	$ 83,424
Less:	
Bonds Paid in Prior Years	33,370
Bonds Due and Paid in July 30, 2014	16,685
Balance Outstanding - June 30, 2015	$ 33,369

Balance Payable as Follows:

Year	Rate	Interest	Principal	Total
2016	4.240%	$ 1,415	$ 16,685	$ 18,100
2017	4.240%	707	16,684	17,391
		$ 2,122	$ 33,369	$ 35,491

Issue Dated June 20, 2012, in the amount of:	$ 85,558
Less:	
Bonds Paid in Prior Years	34,224
Bonds Due and Paid in July 30, 2014	17,112
Balance Outstanding - June 30, 2015	$ 34,222

Balance Payable as Follows:

Year	Rate	Interest	Principal	Total
2016	4.240%	$ 1,451	$ 17,111	$ 18,562
2017	4.240%	726	17,111	17,837
		$ 2,177	$ 34,222	$ 36,399

The interest shown on the 2012 QZAB Debt is expected to be off-set by related federal revenue, making the net interest paid each year equal to $0.

YEAR ENDED JUNE 30, 2015

2013 QZAB DEBT

Issue Dated June 26, 2013, in the amount of:	$	85,806
Less:		
Bonds Paid in Prior Years		17,161
Bonds Due and Paid in June 26, 2015		17,161
Balance Outstanding - June 30, 2015	$	51,484

Balance Payable as Follows:

Year	Rate	Interest		Principal		Total	
2016	0.000%	$	-	$	17,161	$	17,161
2017	0.000%		-		17,161		17,161
2018	0.000%		-		17,162		17,162
		$	-	$	51,484	$	51,484

Issue Dated June 26, 2013, in the amount of:	$	95,905
Less:		
Bonds Paid in Prior Years		19,181
Bonds Due and Paid in June 26, 2015		19,181
Balance Outstanding - June 30, 2015	$	57,543

Balance Payable as Follows:

Year	Rate	Interest		Principal		Total	
2016	0.000%	$	-	$	19,181	$	19,181
2017	0.000%		-		19,181		19,181
2018	0.000%		-		19,181		19,181
		$	-	$	57,543	$	57,543

YEAR ENDED JUNE 30, 2015

2014 QZAB DEBT

Issue Dated June 18, 2014, in the amount of:	$	86,996
Less:		
Bonds Paid in Prior Years		-
Bonds Due and Paid in June 18, 2015		17,399
Balance Outstanding - June 30, 2015	$	69,597

Balance Payable as Follows:

Year	Rate	Interest		Principal		Total	
2016	0.000%	$	-	$	17,399	$	17,399
2017	0.000%		-		17,399		17,399
2018	0.000%		-		17,399		17,399
2019	0.000%		-		17,400		17,400
		$	-	$	69,597	$	69,597

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2015

Program Title	Federal CDFA Number	Contract Number	Program or Award Amount	Prior Year Expenditure	Cash/ Accrued or (Deferred) Revenue at July 1, 2014	Receipts/ Revenues Recognized	Disbursements/ Expenditures	Cash/ Accrued or (Deferred) Revenue at June 30, 2015
U.S. DEPARTMENT OF EDUCATION								
Passed Through Michigan State Dept. of Education								
Title I	84.010	1515301415	$ 331,572	$ -	$ -	$ 237,125	$ 315,511	$ 78,386
Title I	84.010	1415301314	344,996	362,638	67,216	67,216	-	-
			676,568	362,638	67,216	304,341	315,511	78,386
Adult Basic Education	84.002	151130151567	33,000	-	-	12,197	12,197	-
Adult Basic Education	84.002	141130141567	33,000	16,073	2,168	2,168	-	-
			66,000	16,073	2,168	14,365	12,197	-
Title VI Rural and Low-Income Grant	84.358	1406601314	21,657	20,455	2,882	2,882	-	-
Title VI Rural and Low-Income Grant	84.358	1506601415	21,521	-	-	18,783	20,880	2,097
			43,178	20,455	2,882	21,665	20,880	2,097
Title IIA Teacher Training and Recruiting	84.367	1505201415	81,507	-	-	47,550	54,074	6,524
Title IIA Teacher Training and Recruiting	84.367	1405201314	113,392	100,144	16,508	16,508	-	-
			194,899	100,144	16,508	64,058	54,074	6,524
Passed Through Newago County RESA								
IDEA	84.027A		135,768	-	61,563	128,196	135,768	69,135
TOTAL U.S. DEPARTMENT OF EDUCATION			$ 1,116,413	$ 499,310	$ 150,337	$ 532,625	$ 538,430	$ 156,142

* Major Program

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2015

Program Title	Federal CDFA Number	Contract Number	Program or Award Amount	Prior Year Expenditure	Cash/ Accrued or (Deferred) Revenue at July 1, 2014	Receipts/ Revenues Recognized	Disbursements/ Expenditures	Cash/ Accrued or (Deferred) Revenue at June 30, 2015
U.S. DEPARTMENT OF AGRICULTURE								
Passed Through Oceana County								
Schools and Roads	10.665		$ 7,046	$ -	$ -	$ 7,046	$ 7,046	$ -
U.S.D.A Food Distribution								
Entitlement Commodities	*10.555	Various	27,201	-	-	27,201	27,201	-
Bonus Commodities	*10.555	Various	-	-	-	-	-	-
			27,201	-	-	27,201	27,201	-
Passed Through State Department of Education								
National School Lunch Program	*10.555	151960,141960	262,240	-	13,111	271,358	262,240	3,993
Special Breakfast	*10.553	151970,141970	124,425	-	6,775	128,151	124,425	3,049
			386,665	-	19,886	399,509	386,665	7,042
TOTAL U.S. DEPARTMENT OF AGRICULTURE			420,912	-	19,886	433,756	420,912	7,042
TOTAL FEDERAL ASSISTANCE			$ 1,537,325	$ 499,310	$ 170,223	$ 966,381	$ 959,342	$ 163,184

* Major Program

FOOTNOTES TO SCHEDULE OF EXPENDITUERS OF FEDERAL AWARDS

JUNE 30, 2015

NOTE 1 - MAJOR PROGRAMS

The School has one major program - the Child Nutrition Cluster, which consists of the National School Lunch Program, Special Breakfast, and Entitlement Commodities. Total expenditures during the year ended June 30, 2015, was $413,866.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The Schedule of Federal Awards was prepared using the modified accrual basis of accounting. For grants from the Departments of Education and Agriculture, revenue is recognized when the related expense is incurred. Amounts spent but not yet received at June 30, 2015, were recorded as accrued revenue. Expenditures are recorded when the expense is incurred. Amounts received but not spent by June 30, 2015, are recorded as deferred revenue.

NOTE 3 - ANNUAL GRANT REPORTS

For the grants from the Departments of Education and Agriculture, management has reported the expenditures in the Schedule of Expenditures of Federal Awards equal to those amounts reported in the annual or final cost reports.

NOTE 4 - SCHEDULE PREPARATION

Management has utilized the Grants Section Audit Report (form R7120) in preparing the Schedule of Expenditures of Federal Awards.

NOTE 5 - INVENTORY VALUES

Inventory values are based on the USDA value for donated food commodities. Reported commodity receipts values were computed using the Recipient Entitlement Balance Report and other district records. Spoilage or pilferage, if any is included in expenditures.

SCHEDULE OF RECONCILIATION OF REVENUE WITH EXPENDITURES FOR FEDERAL FINANCIAL ASSISTANCE PROGRAMS

YEAR ENDED JUNE 30, 2015

	Financial Statement	Awards Schedule
DEPARTMENT OF EDUCATION GRANTS		
GENERAL FUND		
Title I	$ 315,511	$ 315,511
IDEA	135,768	135,768
Adult Basic Education	12,197	12,197
Title VI	20,880	20,880
Teacher Training and Recruiting	54,074	54,074
TOTAL DEPARTMENT OF EDUCATION GRANTS	538,430	538,430
DEPARTMENT OF AGRICULTURE GRANTS		
SCHOOL LUNCH FUND		
Commodities	27,201	27,201
National School Lunch	262,240	262,240
Special Breakfast	124,425	124,425
TOTAL SCHOOL LUNCH FUND	413,866	413,866
GENERAL FUND		
Schools and Roads	7,046	7,046
TOTAL DEPARTMENT OF AGRICULTURE GRANTS	420,912	420,912
INTERNAL REVENUE SERVICE		
US Treasury Interest	3,985	-
GRAND TOTAL	$ 963,327	$ 959,342

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

INDEPENDENT AUDITORS' REPORT

Board of Education
Hesperia Community Schools
Hesperia, 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 Hesperia Community School as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Hesperia Community School's basic financial statements, and have issued our report thereon dated October 19, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Hesperia Community 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 Hesperia Community School's internal control. Accordingly, we do not express an opinion on the effectiveness of Hesperia Community 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 Hesperia Community 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 Hesperia Community School'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 test disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

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

Karl L Drake

Karl L. Drake, P.C.
Certified Public Accountants

October 19, 2015

Karl L. Drake, P.C.
Certified Public Accountants

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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

INDEPENDENT AUDITORS' REPORT

Board of Education
Hesperia Community Schools
Hesperia, Michigan

Report on Compliance for Each Major Federal Program

We have audited Hesperia Community School's compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of Hesperia Community School's major federal programs for the year ended June 30, 2015. Hesperia Community School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Hesperia Community School's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Hesperia Community School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Hesperia Community Schools complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Other Matters

The results of our auditing procedures disclosed no instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133.

Report on Internal Control Over Compliance

Management of Hesperia Community Schools is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Hesperia Community School's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Hesperia Community School's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of Hesperia Community Schools as of and for the year ended June 30, 2015, and have issued our report thereon dated DATE, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Karl L. Drake

Karl L. Drake, P.C.
Certified Public Accountants
October 19, 2015

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2015

SUMMARY OF AUDITOR'S RESULTS

1. The auditor issued an unqualified report on the financial statements of Hesperia Community Schools.

2. The audit disclosed no noncompliance that is material to the financial statements of Hesperia Community Schools.

3. The auditor issued an unqualified opinion on compliance for major programs.

4. The audit disclosed no audit findings that are required to be reported under Section 510(a).

5. Hesperia Community Schools had one major program - Child Nutrition Cluster.

6. The dollar threshold used to distinguish between Type A and Type B programs was $300,000.

7. Hesperia Community Schools qualified as a low risk auditee under Section 530.

FINDINGS RELATED TO THE FINANCIAL STATEMENT

NONE

FINDING AND QUESTIONED COSTS FOR FEDERAL AWARDS

NONE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2015

There were no prior year audit findings.

Karl L. Drake, P.C.
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October 19, 2015

Board of Education
Hesperia Community Schools
Hesperia, Michigan 49421

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Hesperia Community Schools for the year ended June 30, 2015, and have issued our report thereon dated October 19, 2015. 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 November 6, 2014, 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 November 6, 2014.

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 Hesperia Community 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 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 10 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 October 19, 2015.

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.

Accounting Policy Changes

During the fiscal year ended June 30, 2015, the District adopted GASB Statement number 68. This Statement changed the pension reporting in the audited financial statement presentation.

Affordable Care Act

Potential fines and penalties related to providing health insurance to "full-time" employees will become effective in 2016. Penalties related to the "Employer Shared Responsibility Payment" could be up to $2,000 per employee. There is substantial paperwork and reporting related to this, and all of it will be new work for the administrative team. The Board should continue to monitor this potentially very expensive situation.

Written Compensation Agreements

All agreements with employees related to compensation should be written agreements signed by the employee and a District representative. In this past fiscal year, certain teachers were compensated for mentoring other teachers. The details of this "mentor pay" were not documented. In the future, all of these types of agreements should be written and signed.

Building Internal Checking Accounts

Each of the buildings (elementary middle school, high school, community education) maintains an internal checking account, administered by the principal and their secretary. Procedures have been implemented to monitor these accounts, but upon review, these procedures have been largely ignored. We recommend that these accounts all be closed, and all internal account activity be run through central office, following their procedures. During this past year, the community education account was very well maintained. The other accounts had missing receipts, lack of proper documentation of deposits, and no evidence of the account being reconciled on a monthly basis.

This information is intended solely for the use of Hesperia Community Schools, management of Hesperia Community 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

Karl L. Drake, P.C.