# HESPERIA
## COMMUNITY SCHOOLS

**FINANCIAL STATEMENTS**

**YEAR ENDED**
**JUNE 30, 2016**

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

# LIST OF PRINCIPAL INDIVIDUALS

**JUNE 30, 2016**

## Board of Education

| | |
|---|---|
| Patrick Borton | President |
| Scott Wenberg | Vice President |
| Michelle Allen | Secretary |
| Patricia Budde (Appointed by Board) | Treasurer |
| Ryan Good | Board Member |
| Al Daniels | Board Member |
| Mary Sturtevant | Board Member |
| Katrina Yates | Board Member |

## Management

| | |
|---|---|
| Dean Havelka | Interim 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, 2016, 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.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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, 2016, 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 18 to the financial statements, the School District adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 72, Fair Value Measurement and Application. Our opinions are not modified with respect to these matters.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, budgetary comparison information, the Schedule of Reporting Unit's Proportionate Share of Net Pension Liability, and the Schedule of Reporting Unit's Contributions on pages 3-11 and 39-42 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 Uniform Guidance) 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 Uniform Guidance) 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 Uniform Guidance) 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

August 17, 2016

# 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, 2016. 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)

<u>Basic Financial Statements</u>

*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, 2016 and 2015:

| TABLE 1 | Governmental Activities (In Millions) | |
|---|---|---|
| | 2016 | 2015 |
| **ASSETS** | | |
| Current and other assets | $ 2.4 | $ 2.6 |
| Capital assets - net of accumulated depreciation | 16.4 | 16.7 |
| **TOTAL ASSETS** | 18.8 | 19.3 |
| **DEFFERED OUTFLOWS OF RESOURCES** | 1.5 | 1.6 |
| **LIABILITIES** | | |
| Current liabilities | 2.1 | 2.7 |
| Long-term liabilities | 35.6 | 33.8 |
| **TOTAL LIABILITIES** | 37.7 | 36.5 |
| **DEFERRED INFLOWS OF RESOURCES** | 0.2 | 1.5 |
| **NET POSITION** | | |
| Net Investment in Capital Assets | (5.2) | (4.4) |
| Restricted | 0.3 | 0.4 |
| Unrestricted | (12.7) | (13.1) |
| **TOTAL NET POSITION** | $ (17.6) | $ (17.1) |

The above analysis focuses on the net position (see Table 1). The change in net position (see Table 2) of the School District's governmental activities is discussed below. The School District's net position (deficit) was $-17.6 million at June 30, 2016. Net investment in capital assets totaling $-5.2 million compares the original cost, less depreciation of the School District's capital assets to long-term debt, including accrued interest on capital appreciation bonds, used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use that net position for day-to-day operations. The remaining amount of net position ($-12.7 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 2016 and 2015:

| TABLE 2 | Governmental Activities (In Millions) | |
|---|---|---|
| | 2016 | 2015 |
| **REVENUE** | | |
| Program Revenue | | |
| Charges for Services | $ 0.2 | $ 0.2 |
| Grants and Categoricals | 1.6 | 1.5 |
| General Revenue | | |
| Property Taxes | 1.9 | 1.8 |
| State Aid | 7.1 | 7.6 |
| Other | 0.2 | 0.3 |
| **TOTAL REVENUE** | 11.0 | 11.4 |
| **FUNCTION/PROGRAM EXPENSES** | | |
| Instruction | 6.7 | 7.1 |
| Support Services | 2.9 | 1.0 |
| Community Services | - | - |
| Food Services | 0.5 | 0.5 |
| Interest on Long-Term Debt | 0.8 | 0.9 |
| Depreciation (Unallocated) | 0.6 | 0.6 |
| **TOTAL FUNCTION/PROGRAM EXPENSES** | 11.5 | 10.1 |
| **INCREASE (DECREASE) IN NET POSITION** | $ (0.5) | $ 1.3 |

As reported in the statement of activities, the cost of all governmental activities this year was $11.5 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 ($1.6 million). The remaining "public benefit" portion of the governmental activities was paid with $1.9 million in taxes, $7.1 million in State Foundation Allowance, and with other revenue such as interest and general entitlements.

The School District experienced a decrease in net position of $0.5 million. The key reason for the change in net position was the increase in the net pension liability. The increase in net position differs from the change in fund balance and reconciliation appears on page 17.

### 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 $1.3 million, which is a decrease of $0.2 million from last year. The primary reason for the decrease was reductions in state aid. The General Fund, the principal operating fund, saw the fund balance decrease $68,062 to $1,013,522.

- The Special Revenue Funds remained stable from the prior year, showing a net decrease of approximately $-21,368.
- Combined, the Debt Service Funds showed a fund balance decrease of approximately $114,837. 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 $16,252 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 2015 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 $78,361. 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 $45,526 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 $100,141. 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 $991,742 and the actual fund balance is $1,013,522. This represents a positive variance of $21,780 between the budgeted amount of fund balance and the actual fund balance. The fund balance ending June 30, 2015, was $1,081.584 and the fund balance ending June 30, 2016, is $1,013,522. This represents a use of fund balance of $68,062 from the previous year resulting in a decrease in the amount of fund balance.

**Capital Asset and Debt Administration**

**Capital Asset**

At June 30, 2016, the School District had $16.4 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 $415,678 or 2 percent, from last year.

| | 2016 | 2015 |
|---|---|---|
| Land | $ 75,012 | $ 75,012 |
| Buildings | 19,676,285 | 19,639,846 |
| Buses and Other Vehicles | 1,489,653 | 1,359,969 |
| Furniture and Equipment | 2,588,194 | 2,612,047 |
| Total Capital Assets | 23,829,144 | 23,686,874 |
| Less Accumulated Depreciation | (7,476,266) | (6,918,318) |
| Net Capital Assets | $ 16,352,878 | $ 16,768,556 |

**Debt**

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

| | 2016 | 2015 |
|---|---|---|
| General Obligation Bonds | $ 21,592,244 | $ 21,214,574 |
| Notes Payable | - | - |
| | $ 21,592,244 | $ 21,214,574 |

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 $21.6 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 2016-2017 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 2016-2017 fiscal year is 10 percent of the February 2016 student count and 90 percent of the October 2016 student count. The budget for 2016-2017 included a loss of membership of 15 students for Fall of 2016 when compared to Fall of 2015. The 2016-2017 fiscal year budget was adopted in June 2016, based on an estimate of students that will be enrolled on count day in October 2016. 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 2016-2017 school year, we anticipate that the fall student count will be higher than the estimates used in creating the 2016-2017 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 2016-2017 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 2016-2017 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 ended June 30, 2015, the School District implemented GASB 68 which resulted in a restatement of beginning net position in that year. Beginning net position in the statement of activities was reduced by $14,846,712. As of June 30, 2016, the estimated net pension liability for the school district is $14,732,690. Additionally deferred inflows relating to net pension liability are $171,748, and deferred outflows relating to the net pension liability are $1,529,521. 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

## STATEMENT OF NET POSITION

### JUNE 30, 2016

| | | Governmental Activities |
|---|---|---|
| **ASSETS AND DEFERRED OUTFLOWS OF RESOURCES** | | |
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and Investments | $ | 812,163 |
| Due From Other Governmental Units | | 1,498,262 |
| Accounts Receivable | | 3,962 |
| Inventories | | 36,654 |
| Prepaid Expenditures | | - |
| TOTAL CURRENT ASSETS | | 2,351,041 |
| NON-CURRENT ASSETS | | |
| Capital Assets | | 23,829,144 |
| Less: Accumulated Depreciation | | (7,476,266) |
| TOTAL NON-CURRENT ASSETS | | 16,352,878 |
| TOTAL ASSETS | | 18,703,919 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Pensions | | 1,529,521 |
| Loss on Refunding of Debt | | 82,250 |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | | 1,611,771 |
| **TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES** | $ | 20,315,690 |
| **LIABILITIES, DEFERRED INLFOWS OF RESOURCES, AND NET POSITION** | | |
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| Accounts Payable | $ | 190,528 |
| Accrued Salaries and Expenses | | 805,272 |
| Accrued Interest | | 139,252 |
| Unavailable Revenue | | 35,024 |
| Bonds and Loans Payable, Due within One Year | | 917,374 |
| TOTAL CURRENT LIABILITIES | | 2,087,450 |
| NON-CURRENT LIABILITIES | | |
| Bonds and Loans Payable | | 20,674,870 |
| Compensated Absences and Severance Pay | | 164,947 |
| Net Pension Liability | | 14,732,690 |
| TOTAL NON-CURRENT LIABILITIES | | 35,572,507 |
| TOTAL LIABILITIES | | 37,659,957 |
| DEFERRED INLFOWS OF RESOURCES | | |
| Pension | | 171,748 |
| NET POSITION | | |
| Net Investment in Capital Assets | | (5,239,366) |
| Restricted for Debt Service | | 147,441 |
| Restricted for Food Service | | 159,254 |
| Unrestricted | | (12,583,344) |
| TOTAL NET POSITION | | (17,516,015) |
| **TOTAL LIABILITIES, DEFERRED INLFOWS OF RESOURCES, AND NET POSITION** | $ | 20,315,690 |

See Accompanying Notes to Financial Statements

# STATEMENT OF ACTIVITIES

## YEAR ENDED JUNE 30, 2016

| | | Program Revenue | | Governmental Activities |
|---|---|---|---|---|
| | Expenses | Charges For Services | Operating Grants | Net (Expense) Revenue and Changes in Net Position |
| **FUNCTIONS/PROGRAMS** | | | | |
| Governmental Activities | | | | |
| Instruction | $ 6,651,575 | $ - | $ 1,199,276 | $ (5,452,299) |
| Support Services | 2,852,235 | 63,326 | 32,072 | (2,756,837) |
| Food Services | 483,173 | 89,348 | 412,480 | 18,655 |
| Community Services | 19,177 | - | - | (19,177) |
| Interest on Long-Term Debt | 751,865 | - | - | (751,865) |
| Depreciation (Unallocated) | 603,752 | - | - | (603,752) |
| Total Governmental Activities | 11,361,777 | 152,674 | 1,643,828 | (9,565,275) |
| General Revenue | | | | |
| Taxes | | | | |
| Property Taxes, Levied for General Operations | | | | 857,376 |
| Property Taxes, Levied for Debt Service | | | | 998,822 |
| State of Michigan Aid, Unrestricted | | | | 7,071,455 |
| Interest Earnings | | | | 4,428 |
| Other | | | | 222,450 |
| Total General Revenue | | | | 9,154,531 |
| **CHANGE IN NET POSITION** | | | | (410,744) |
| NET POSITION - BEGINNING OF YEAR | | | | (17,105,271) |
| **NET POSITION - END OF YEAR** | | | | $ (17,516,015) |

See Accompanying Notes to Financial Statements

# BALANCE SHEET

## JUNE 30, 2016

| | General | Food Service | Other Non-Major Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and Investments | $ 568,803 | $ 97,962 | $ 145,398 | $ 812,163 |
| Accounts Receivable | 3,962 | - | - | 3,962 |
| Due from Other Governmental Units | 1,498,262 | - | - | 1,498,262 |
| Due from Other Funds | - | 91,127 | 93,320 | 184,447 |
| Inventories | 32,479 | 4,175 | - | 36,654 |
| Prepaid Expenditures | - | - | - | - |
| **TOTAL ASSETS** | $ 2,103,506 | $ 193,264 | $ 238,718 | $ 2,535,488 |
| **LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES** | | | | |
| LIABILITIES | | | | |
| Accounts Payable | $ 156,518 | $ 34,010 | $ - | $ 190,528 |
| Accrued Salaries and Withholdings | 805,272 | - | - | 805,272 |
| Due to Other Funds | 93,170 | - | 91,277 | 184,447 |
| TOTAL LIABILITIES | 1,054,960 | 34,010 | 91,277 | 1,180,247 |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Unavailable Revenue | 35,024 | - | - | 35,024 |
| FUND BALANCES | | | | |
| Non-spendable | 32,479 | 4,175 | - | 36,654 |
| Restricted | - | 155,079 | 147,441 | 302,520 |
| Committed | - | - | - | - |
| Assigned | 13,269 | - | - | 13,269 |
| Unrestricted | 967,774 | - | - | 967,774 |
| TOTAL FUND BALANCES | 1,013,522 | 159,254 | 147,441 | 1,320,217 |
| **TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES** | $ 2,103,506 | $ 193,264 | $ 238,718 | $ 2,535,488 |
| TOTAL GOVERNMENTAL FUND BALANCES | | | | $ 1,320,217 |

| | |
|---|---|
| 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 | 23,829,144 |
| Accumulated Depreciation | (7,476,266) |
| | 16,352,878 |
| Long-term liabilities are not due and payable in the current period and are not reported in the fund: | |
| Bonds and Notes Payable | (21,592,244) |
| Compensated Absences | (164,947) |
| Net Pension Liability | (14,732,690) |
| Accrued interest is not included as a liability in governmental funds | (139,252) |
| Deferred Outflows of Resources Pensions are not included in governmental funds | 1,529,521 |
| Deferred Inflows of Resources Pensions are not included in governmental funds | (171,748) |
| Deferred Outflows of Resources Loss on Refunding of Debt are not included in governmental funds | 82,250 |
| NET POSITION OF GOVERNMENTAL ACTIVITIES | $ (17,516,015) |

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

## YEAR ENDED JUNE 30, 2016

| | General | Food Service | Other Non-Major Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|
| **REVENUE** | | | | |
| Local Sources | $ 1,015,143 | $ 49,533 | $ 998,822 | $ 2,063,498 |
| Inter-District Sources | 120,693 | - | - | 120,693 |
| State Sources | 7,779,568 | 18,320 | - | 7,797,888 |
| Federal Sources | 523,235 | 394,160 | - | 917,395 |
| Other Sources | 8,701 | 39,878 | 2,980 | 51,559 |
| **TOTAL REVENUE** | 9,447,340 | 501,891 | 1,001,802 | 10,951,033 |
| **EXPENDITURES** | | | | |
| Instruction | 6,733,825 | - | - | 6,733,825 |
| Supporting Services | 2,502,288 | 483,173 | - | 2,985,461 |
| Community Services | 19,177 | - | - | 19,177 |
| Debt Service | 128,975 | - | 6,888,859 | 7,017,834 |
| Capital Outlay | 267,937 | 40,086 | - | 308,023 |
| **TOTAL EXPENDITURES** | 9,652,202 | 523,259 | 6,888,859 | 17,064,320 |
| **EXCESS OF REVENUE OVER (UNDER) EXPENDITURES** | (204,862) | (21,368) | (5,887,057) | (6,113,287) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Loan Proceeds | 136,800 | - | 5,772,220 | 5,909,020 |
| Transfers In (Out) | - | - | - | - |
| TOTAL OTHER FINANCING SOURCES (USES) | 136,800 | - | 5,772,220 | 5,909,020 |
| NET CHANGE IN FUND BALANCES | (68,062) | (21,368) | (114,837) | (204,267) |
| FUND BALANCES - BEGINNING OF YEAR | 1,081,584 | 180,622 | 262,278 | 1,524,484 |
| **FUND BALANCES - END OF YEAR** | $ 1,013,522 | $ 159,254 | $ 147,441 | $ 1,320,217 |

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, 2016

| | | |
|---|---|---|
| **NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS** | | $ (204,267) |
| 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 | (603,752) | |
| Capital Outlay | 188,074 | |
| | | (415,678) |
| - 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. | | (5,909,020) |
| - Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid. | | 502,265 |
| - Deferred outflows of resources are recorded on the statement of net position but not in the governmental funds. | | (25,799) |
| - Deferred inflows of resources are recorded on the statement of net position but not in the governmental funds. | | 1,313,605 |
| - 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). | | 5,531,350 |
| - Compensated absences are included in expenditures in the statement of activities but not in the governmental funds. | | 16,461 |
| - Net pension liability is recorded on the statement of net position but not in the governmental funds. | | (1,301,911) |
| - Expenses related to loan refunding are an expenditure in the governmental funds, but not in the statement of activities where it is amortized over the life of the loan. | | 82,250 |
| **CHANGES IN NET POSITION OF GOVERNMENTAL ACTIVITIES** | | $ (410,744) |

# STATEMENT OF NET POSITION

## JUNE 30, 2016

| | | |
|---|---|---|
| **ASSETS** | | |
| Cash and Cash Equivalents | $ | 58,831 |
| Accounts Receivable | | - |
| **TOTAL ASSETS** | $ | 58,831 |
| **LIABILITIES** | | |
| Due to Student Groups | $ | 58,605 |
| Due to Others | | 226 |
| **TOTAL LIABILITIES** | $ | 58,831 |
| **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 policies.

**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 2016 Refunding, 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. 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.

**J. 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)**

**J. 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 |

**K. 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.

**L. 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.

**M. 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.

**N. 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 (expense/expenditure) until then.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### N. DEFERRED OUTFLOW/INFLOW OF RESOURCES (CONTINUED)

The School District reports deferred outflows of resources for the loss on refunding of debt. This amount represents the difference in the carrying value of the refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The School District also reports deferred outflows of resources related to the net pension liability. More detailed information can be found in the Net Pension Liability footnote.

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 two items which qualify for reporting in this category. The first item 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. The second item is the deferred inflows of resources related to the net pension liability. More detailed information can be found in the Net Pension Liability footnote.

### O. NET PENSION LIABILITY

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

## 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.

## NOTE 2 - DEPOSITS WITH FINANCIAL INSTITUTIONS (CONTINUED)

### LEGAL OR CONTRACTUAL PROVISIONS FOR DEPOSITS AND INVESTMENTS (CONTINUED)

5. In bankers' acceptances of United States banks.
6. In mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

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

The School District maintains all of its cash deposits in three financial institutions. At June 30, 2016, the book value of the School District's deposits was $867,365 and the bank balance was $934,082. Of the bank balance, $336,064 was covered by federal depository insurance and $531,401 was uninsured and uncollateralized.

There is $3,529 in the Michigan Liquid Asset Fund Plus Account. The MILAF account is an external pooled fund and is stated at Net Asset Value. See footnote Fair Value Measurement for further details.

Total cash and investments as of June 30, 2016, consist of:

| | | |
|---|---|---|
| Petty Cash | $ | 100 |
| Deposits with Financial Institutions | | 867,365 |
| Deposits with MILAF Account | | 3,529 |
| | $ | 870,994 |

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, 2016, the School District incurred no expenditures that were in excess of the amounts budgeted.

**NOTE 4 - ACCRUED SALARIES AND FRINGE BENEFITS**

At June 30, 2016, $485,246 represents salaries payable, which is the unpaid portion of teacher contracts for the 2015-16 school year. On these salaries, there are also fringe benefits payable at year-end totaling $179,605.

**NOTE 5 - COMPONENTS OF FUND BALANCE**

The School District had the following components of fund balance at June 30, 2016:

A. $32,479 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. $4,175 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 |
| | $ 13,269 |

D. The balance of the Fund Balance is unassigned and is available to fund future School operations. The June 30, 2016, Unassigned General Fund Balance of $967,774 compares to June 30, 2015, Unassigned General Fund Balance of $1,006,175.

**NOTE 6 - INVENTORY**

The $32,479 shown as inventory in the General Fund represents the value of supplies, bus parts, and fuel on hand at June 30, 2016.

There was $4,175 of inventory in the Special Revenue Fund - Food Service at June 30, 2016.

Total inventory of both funds at June 30, 2016, was $36,654.

**NOTE 7 - INVESTMENTS**

Investments at estimated fair value as of June 30, 2016, consist of:

| | |
|---|---|
| External Investment Pools | $ 3,529 |

## NOTE 7 - INVESTMENTS (CONTINUED)

Investment income (loss) for the year ended June 30, 2016, consists of:

| | | |
|---|---|---|
| Interest and Dividends | $ | 8 |
| Net Realized and Unrealized Gain (Loss) | | - |
| Total | $ | 8 |

## NOTE 8 - FAIR VALUE MEASUREMENTS

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

Investments valued at the net asset value of June 30, 2016, are:

| | Fair Value | Unfunded Commitments | Redemption Frequency (if Currently Eligible) | Redemption Notice Period |
|---|---|---|---|---|
| External Investment Pools | $ 3,529 | $ - | Daily | 1 Day |

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

## NOTE 9 - 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, 2016, no claims exist, and no provision has been entered into the accounting records.

**NOTE 10 - DUE FROM OTHER GOVERNMENTAL UNITS**

The Due from Other Governmental Units at June 30, 2016, is comprised of the following:

| | |
|---|---|
| Newago County RESA | $ 20,256 |
| State of Michigan | |
| State Aid | 1,415,618 |
| Title IIA | 4,336 |
| Title VI | 1,505 |
| Title I | 56,547 |
| | $ 1,498,262 |

**NOTE 11 - CAPITAL ASSETS**

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

| | July 1, 2015 | Additions | Disposals and Adjustments | June 30, 2016 |
|---|---|---|---|---|
| Assets not being depreciated: | | | | |
| Land | $ 75,012 | $ - | $ - | $ 75,012 |
| Capital assets being depreciated: | | | | |
| Building and Building Improvements | 19,639,846 | 36,439 | - | 19,676,285 |
| Buses and Other Vehicles | 1,359,969 | 165,514 | 35,830 | 1,489,653 |
| Furniture and Equipment | 2,612,047 | 28,014 | 51,867 | 2,588,194 |
| Subtotal | 23,611,862 | 229,967 | 87,697 | 23,754,132 |
| Accumulated depreciation: | | | | |
| Building and Building Improvements | 4,402,817 | 365,402 | - | 4,768,219 |
| Buses and Other Vehicles | 956,016 | 87,287 | 35,830 | 1,007,473 |
| Furniture and Equipment | 1,559,485 | 151,063 | 9,974 | 1,700,574 |
| Subtotal | 6,918,318 | 603,752 | 45,804 | 7,476,266 |
| Net Capital Assets Being Depreciated | 16,693,544 | (373,785) | 41,893 | 16,277,866 |
| Net Capital Assets | $ 16,768,556 | $ (373,785) | $ 41,893 | $ 16,352,878 |

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

## NOTE 12 - DUE TO/FROM OTHER FUNDS

Due to/due from at June 30, 2016, consisted of the following:

| Due To: | | | Due From: | | |
|---|---|---|---|---|---|
| Food Service | $ | 91,127 | General Fund | $ | 91,127 |
| 2016 Refund | | 2,043 | General Fund | | 2,043 |
| 2008 Debt | | 52,976 | 2009 Refunding Debt | | 52,976 |
| 2009 Debt | | 38,301 | 2009 Refunding Debt | | 38,301 |
| | $ | 184,447 | | $ | 184,447 |

## NOTE 13 - UNAVAILABLE REVENUE

Unavailable revenue which is a component of deferred inflows of resources (cash received for future program expenditures) includes the following:

| Program | | |
|---|---|---|
| At Risk | $ | 30,614 |
| Local Grants | | 4,410 |
| | $ | 35,024 |

## NOTE 14 - LOSS ON REFUNDING OF DEBT

Debt was refunded during the year ended June 30, 2016, resulting in a loss on refunding of debt of $94,000. This amount will be amortized over the life of the refunding loan. More detailed information on the refunding of the debt is described in the Long-Term Debt footnote. The balance of the loss on refunding of debt as of June 30, 2016, was $82,250. Amortization expense in the amount of $11,750 is included in interest expense in the government-wide financial statements for the year ended June 30, 2016.

## NOTE 15 - SHORT-TERM BORROWING

On September 4, 2015, Hesperia Community Schools borrowed $1,483,000 via a state aid note through Shelby State Bank. Interest was at 0.64%. The entire balance of this loan plus interest was repaid on June 30, 2016.

## NOTE 16 - LONG TERM DEBT

Long-Term Debt is comprised of bonded debt, bus notes and other notes payable. During the year ended June 30, 2016, long-term debt changed as follows:

| | July 1, 2015 | Additional Debt | 2015-2016 Payments | June 30, 2016 |
|---|---|---|---|---|
| 2009 Refunding Bond Issue | $ 3,215,000 | $ - | $ 345,000 | $ 2,870,000 |
| 2008 Series A Bond Issue | 8,105,000 | - | 220,000 | 7,885,000 |
| 2009 Bond Issue | 5,195,000 | - | 190,000 | 5,005,000 |
| 2016 Refunding Bond Issue | - | 5,265,000 | - | 5,265,000 |
| QZAB Bonds | 418,320 | - | 259,642 | 158,678 |
| Bus Loan | - | 136,800 | - | 136,800 |
| School Loan Revolving | 4,281,254 | 507,220 | 4,516,708 | 271,766 |
| | 21,214,574 | 5,909,020 | 5,531,350 | 21,592,244 |
| Teacher Buy-Outs | 140,000 | 60,000 | 80,000 | 120,000 |
| Severance Pay | 13,510 | 1,995 | - | 15,505 |
| Compensated Absences | 27,898 | 1,544 | - | 29,442 |
| | $ 21,395,982 | $ 5,972,559 | $ 5,611,350 | $ 21,757,191 |

Future minimum payments are as follows:

| | Bonds | School Loan Revolving | Other Loans | Total |
|---|---|---|---|---|
| Year Ending June 30, | | | | |
| 2017 | $ 872,536 | $ - | $ 44,838 | $ 917,374 |
| 2018 | 1,633,742 | - | 45,596 | 1,679,338 |
| 2019 | 1,672,400 | - | 46,366 | 1,718,766 |
| 2020 | 1,695,000 | - | - | 1,695,000 |
| 2021 | 1,755,000 | - | - | 1,755,000 |
| Thereafter | 13,555,000 | 271,766 | - | 13,826,766 |
| | $ 21,183,678 | $ 271,766 | $ 136,800 | $ 21,592,244 |

### A. 2009 REFUNDING BONDS

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, 2016, were $2,870,000.

**NOTE 16 - LONG TERM DEBT (CONTINUED)**

**B. 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, 2016, was $7,885,000.

**C. 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, 2016, was $5,005,000.

**D. 2016 REFUNDING BONDS**

The bonds are dated April 21, 2016, with principal due each May 1 and interest due each May 1 and November 1, beginning November 1, 2016, and ending May 1, 2023. The first principal payment is due May 1, 2018. The original amount of the bonds was $5,265,000. The School District interest rates vary from 1.4% to 2.6%. The proceeds of the bonds were used to refund the outstanding principal and interest balance in the School Loan Revolving Fund as of April 21, 2016. Total amount outstanding at June 30, 2016, was $5,265,000.

**E. 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. The balance due June 30, 2015, was $0.

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. The balance due June 30, 2016, was $0.

**F. 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, 2016, was $16,684.

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, 2016, was $17,111.

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

## NOTE 16 - LONG TERM DEBT (CONTINUED)

### G. 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, 2016, was $34,323.

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, 2016, was $38,362.

### H. 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, 2016, was $52,198.

### I. 2016 BUS LOAN

On February 3, 2016, the School District borrowed $136,800 from a financial institution for the purchase of busses. The loan bears interest at 1.69%. Annual payments of about $47,150 are due beginning February 2017, and continue through February 2019. The balance due at June 30, 2016, was $136,800.

### J. 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 2036). The initial loans are dated April 24, 2009, and interest accrues at a variable rate. On April 21, 2016, the outstanding principal and interest of the loan were refunded through the 2016 Refunding Bond issue.

Subsequent to the refunding, the School District approved borrowing from the School Loan Revolving Fund to help make payments for the 2008 Series A Bonds, 2009 Bonds, 2009 Refunding Bonds, and 2016 Refunding Bonds. The initial loans are dated April 24, 2016, and interest accrues at a variable rate, which was 3.34041 % at June 30, 2016. There is no schedule for payments of principal or interest. Total amount outstanding at June 30, 2016, was $271,766.

### K. 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, 2016, there were 2 staff people that accepted buy-outs of $30,000, paid over 3 years. Total buy-outs payable at June 30, 2016, was $120,000.

### L. 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, 2016, was $15,505.

## NOTE 16 - LONG TERM DEBT (CONTINUED)

### M. 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 $29,442 unused vacation leave exists at June 30, 2016.

## NOTE 17 - NET PENSION LIABILITY

### BENEFITS PROVIDED

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

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

### CONTRIBUTIONS AND FUNDING STATUS

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

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2015 valuation will be amortized over a 21 year period for the 2015 fiscal year. The schedule below summarizes pension contribution rates in effect for fiscal year 2015.

Pension Contribution Rates

| Benefit Structure | Member | Employer |
|---|---|---|
| Basic | 0.0 - 4.0% | 22.52 - 23.07% |
| Member Investment Plan | 3.0 - 7.0% | 22.52 - 23.07% |
| Pension Plus | 3.0 - 6.4% | 21.99% |
| Defined Contribution | 0.0% | 17.72 - 18.76% |

Required contributions to the pension plan from the School District were $1,313,943 for the year ended September 30, 2015.

## NOTE 17 - NET PENSION LIABILITY (CONTINUED)

### LONG-TERM EXPECTED RETURN ON PLAN ASSETS

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by 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, 2015, are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return* |
|---|---|---|
| Domestic Equity Pools | 28.0% | 5.9% |
| Alternative Investment Pools | 18.0% | 9.2% |
| International Equity | 16.0% | 7.2% |
| Fixed Income Pools | 10.5% | 0.9% |
| Real Estate and Infrastructure Pools | 10.0% | 4.3% |
| Absolute Return Pools | 15.5% | 6.0% |
| Short-Term Investment Pools | 2.0% | 0.0% |
| | 100.0% | |

*Long-term rate of return does not include 2.1% inflation

### 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 provided through non-university employers only). 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 flow 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 17 - NET PENSION LIABILITY (CONTINUED)**

**SENSITIVITY OF THE NET PENSION LIABILITY TO CHANGES IN DISCOUNT RATE**

The following presents the School District's proportionate share of the net pension liability calculated using the discount rate of 8.0% (7.0% for the Hybrid Plan), as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage higher:

| 1% Decrease (Non-Hybrid/Hybrid) 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% |
|---|---|---|
| $ 18,994,214 | $ 14,732,690 | $ 11,140,041 |

**ACTUARIAL VALUATIONS AND ASSUMPTIONS**

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

Additional information as of the latest actuarial valuation follows:

| | |
|---|---|
| Summary of Actuarial Assumptions | |
| Valuation Date: | September 30, 2014 |
| Actuarial Cost Method: | Entry Age, Normal |
| 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 |
| Mortality: | RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females. |

**NOTE 17 - NET PENSION LIABILITY (CONTINUED)**

**ACTUARIAL VALUATIONS AND ASSUMPTIONS (CONTINUED)**

NOTES:

Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2015, is based on the results of an actuarial valuation date of September 30, 2014, 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: 4.7158.

Recognition period for assets in years is 5.0000.

Full actuarial assumptions are available in the 2015 MPSERS Comprehensive Annual Financial Report.

At June 30, 2016, the School District reported a liability of $14,732,690 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2014. the School District’s proportion of the net pension liability was determined by dividing each employer’s statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2015, the School District’s proportion was 0.06031 percent, which was an increase of 0.00067 percent from its proportion measured as of September 30, 2014.

For the year ended June 30, 2016, the School District recognized pension expense of $1,235,681. At June 30, 2016, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences Between Expected and Actual Experience | $ - | $ 48,799 |
| Changes in Assumptions | 362,750 | - |
| Net Difference Between Projected and Actual Earnings on Pension Plan Investments | 75,198 | - |
| Changes in Proportion and Differences between Reporting Unit Contributions and Proportionate share of Contributions | 87,608 | 122,949 |
| Reporting Unit Contributions Subsequent to the Measurement Date | 1,003,965 | - |
| Total | $ 1,529,521 | $ 171,748 |

**NOTE 17 - NET PENSION LIABILITY (CONTINUED)**

**ACTUARIAL VALUATIONS AND ASSUMPTIONS (CONTINUED)**

$1,003,965 reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts 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: | | |
|---|---|---|
| 2016 | $ | 31,795 |
| 2017 | | 31,795 |
| 2018 | | 12,151 |
| 2019 | | 278,067 |
| | $ | 353,808 |

**MPSERS FIDUCIARY NET POSITION**

Detailed information about the pension plan’s fiduciary net position is available in the separately issued MPSERS CAFR.

**NOTE 18 - ADOPTION OF NEW ACCOUNTING POLICIES**

Effective July 1, 2015, the School District adopted the provisions of the following accounting pronouncement. 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.

**NOTE 19 - UPCOMING ACCOUNTING PRONOUNCEMENTS**

In August 2015, the GASB issued Statement No. 77, Tax Abatement Disclosures. Statement No. 77 requires the disclosure of tax abatement information about a reporting government's own tax abatement agreements and those that are entered into by other governments and that reduce the reporting government's tax revenue. The requirements of this statement improve financial reporting by giving the users of the financial statements essential information that is not consistently or comprehensively reported to the public at present. The 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 December 15, 2015.

## 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

| | 2016 | 2015 |
|---|---|---|
| A. Reporting Unit's Proportion of Net Pension Liability (%) | 0.06031% | 0.06098% |
| B. Reporting Unit's Proportionate Share of Net Pension Liability | $14,732,690 | $13,430,779 |
| C. Reporting Unit's Covered-Employee Payroll | $ 4,827,765 | $ 5,101,036 |
| D. Reporting Unit's Proportionate Share of Net Pension Liability as a Percentage of Its Covered-Employee Payroll | 305.17% | 263.30% |
| E. Plan Fiduciary Net Position as a Percentage of Total Pension Liability | 63.17% | 66.20% |

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

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

### AMOUNTS DETERMINED AS OF 6/30 OF EACH FISCAL YEAR

| | 2016 | 2015 |
|---|---|---|
| A. Statutorily Required Contributions | $1,163,613 | $ 1,289,645 |
| B. Contributions in Relation to Statutorily Required Contributions | 1,231,423 | 1,289,645 |
| C. Contribution Deficiency (Excess) | $ (67,810) | $ - |
| D. Reporting Unit's Covered-Employee Payroll | $4,827,765 | $ 5,101,036 |
| E. Contributions as a Percentage of Covered-Employee Payroll | 25.51% | 25.28% |

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

**Changes of Benefit Terms**

There were no changes of benefit terms in 2015.

**Changes of Assumptions**

There were no changes of benefit assumptions in 2015.

# GENERAL FUND

## YEAR ENDED JUNE 30, 2016

| | Budgeted Amounts | | Actual | Variance |
|---|---|---|---|---|
| | Original | Final | (Budgetary Basis) | |
| **REVENUE** | | | | |
| Local Sources | $ 983,792 | $ 1,015,960 | $ 1,015,143 | $ (817) |
| Inter-District Sources | 183,469 | 120,643 | 120,693 | 50 |
| State Sources | 7,902,199 | 7,809,891 | 7,779,568 | (30,323) |
| Federal Sources | 593,594 | 564,508 | 523,235 | (41,273) |
| Other Sources | 14,700 | 14,700 | 8,701 | (5,999) |
| Loan Proceeds | - | 136,800 | 136,800 | - |
| **TOTAL REVENUE** | 9,677,754 | 9,662,502 | 9,584,140 | (78,362) |
| **EXPENDITURES** | | | | |
| Instruction | | | | |
| Basic Programs | 5,481,570 | 5,177,871 | 5,175,912 | 1,959 |
| Added Needs | 1,414,785 | 1,615,999 | 1,557,913 | 58,086 |
| Supporting Services | | | | |
| Pupil | 282,697 | 231,028 | 221,650 | 9,378 |
| Instructional Staff | 79,330 | 60,298 | 55,554 | 4,744 |
| Administration | 544,536 | 574,191 | 565,631 | 8,560 |
| Business Services | 263,610 | 272,664 | 270,646 | 2,018 |
| Operations | 534,039 | 525,500 | 520,587 | 4,913 |
| Transportation | 575,890 | 511,718 | 507,001 | 4,717 |
| Information Management | 182,437 | 165,124 | 163,761 | 1,363 |
| Athletics | 201,754 | 199,521 | 197,458 | 2,063 |
| Community Services | 16,584 | 21,509 | 19,177 | 2,332 |
| Capital Outlay | - | 267,937 | 267,937 | - |
| Debt Service | 129,586 | 128,984 | 128,975 | 9 |
| Other Uses - Operating Transfers | - | - | - | - |
| **TOTAL EXPENDITURES** | 9,706,818 | 9,752,344 | 9,652,202 | 100,142 |
| **EXCESS OF REVENUE OVER (UNDER) EXPENDITURES AND OTHER USES** | (29,064) | (89,842) | (68,062) | 21,780 |
| BUDGETARY FUND BALANCE- July 1, 2015 | 1,081,584 | 1,081,584 | 1,081,584 | - |
| **BUDGETARY FUND BALANCE- June 30, 2016** | $ 1,052,520 | $ 991,742 | $ 1,013,522 | $ 21,780 |

# FOOD SERVICE FUND

## YEAR ENDED JUNE 30, 2016

| | Budgeted Amounts | | Actual | Variance |
|---|---|---|---|---|
| | Original | Final | (Budgetary Basis) | |
| **REVENUE** | | | | |
| Local Sources | $ 58,673 | $ 57,478 | $ 49,533 | $ (7,945) |
| State Sources | 16,808 | 18,000 | 18,320 | 320 |
| Federal Sources | 414,048 | 394,583 | 394,160 | (423) |
| Other Sources | 39,156 | 39,845 | 39,878 | 33 |
| **TOTAL REVENUE** | 528,685 | 509,906 | 501,891 | (8,015) |
| **EXPENDITURES** | | | | |
| Instruction | | | | |
| Basic Programs | - | - | - | - |
| Added Needs | - | - | - | - |
| Adult/Continuing Education | - | - | - | - |
| Supporting Services | | | | |
| Pupil | 535,062 | 494,562 | 483,173 | 11,389 |
| Instructional Staff | - | - | - | - |
| Administration | - | - | - | - |
| Business Services | - | - | - | - |
| Operations | - | - | - | - |
| Transportation | - | - | - | - |
| Information Management | - | - | - | - |
| Athletics | - | - | - | - |
| Community Services | - | - | - | - |
| Capital Outlay | 30,000 | 40,500 | 40,086 | 414 |
| Debt Service | - | - | - | - |
| Other Uses - Operating Transfers | - | - | - | - |
| **TOTAL EXPENDITURES** | 565,062 | 535,062 | 523,259 | 11,803 |
| **EXCESS OF REVENUE OVER (UNDER) EXPENDITURES AND OTHER USES** | (36,377) | (25,156) | (21,368) | 3,788 |
| BUDGETARY FUND BALANCE- July 1, 2015 | 180,622 | 180,622 | 180,622 | - |
| **BUDGETARY FUND BALANCE- June 30, 2016** | $ 144,245 | $ 155,466 | $ 159,254 | $ 3,788 |

# OTHER SUPPLEMENTAL INFORMATION

# GENERAL FUND

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

## YEAR ENDED JUNE 30, 2016

| | Budget | Actual | Variance Favorable (Unfavorable) |
|---|---|---|---|
| **REVENUE** | | | |
| LOCAL SOURCES | | | |
| Current Property Tax Levy | $ 857,375 | $ 857,376 | $ 1 |
| Interest and Penalties - Delinquent Taxes | - | - | - |
| Contributions from Private Sources | 60,386 | 55,975 | (4,411) |
| Sale of School Property | 14,779 | 17,089 | 2,310 |
| Interest Earned | 1,051 | 1,385 | 334 |
| Community Service | - | - | - |
| Transportation | 12,255 | 13,742 | 1,487 |
| Athletics | 49,234 | 49,584 | 350 |
| Other | 20,880 | 19,992 | (888) |
| TOTAL LOCAL SOURCES | 1,015,960 | 1,015,143 | (817) |
| INTER-DISTRICT SOURCES | | | |
| ISD | 100,643 | 100,693 | 50 |
| MSRP Reimbursement | 20,000 | 20,000 | - |
| TOTAL INTER-DISTRICT SOURCES | 120,643 | 120,693 | 50 |
| STATE SOURCES | | | |
| State Aid | 6,413,282 | 6,413,282 | - |
| Special Education | 303,228 | 303,228 | - |
| At Risk | 427,376 | 396,762 | (30,614) |
| Tech Readiness | 7,832 | 8,123 | 291 |
| Computer Adaptive Tests | 5,455 | 5,455 | - |
| MPSERS | 580,807 | 580,807 | - |
| MPSERS Offset | 71,911 | 71,911 | - |
| TOTAL STATE SOURCES | 7,809,891 | 7,779,568 | (30,323) |
| FEDERAL SOURCES | | | |
| IDEA | 137,517 | 137,517 | - |
| Title I A | 300,465 | 284,639 | (15,826) |
| Title II A | 91,870 | 69,007 | (22,863) |
| Title VI B | 21,485 | 18,809 | (2,676) |
| Schools and Road | 10,500 | 10,592 | 92 |
| QZAB Bond Interest | 2,671 | 2,671 | - |
| TOTAL FEDERAL SOURCES | 564,508 | 523,235 | (41,273) |
| **TOTAL REVENUE** | $ 9,511,002 | $ 9,438,639 | $ (72,363) |

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

## YEAR ENDED JUNE 30, 2016

| | Budget | Actual | Variance Favorable (Unfavorable) |
|---|---|---|---|
| **EXPENDITURES** | | | |
| **INSTRUCTION** | | | |
| BASIC PROGRAMS | | | |
| Elementary School | $ 2,422,976 | $ 2,422,976 | $ - |
| Middle School | 1,454,288 | 1,454,288 | - |
| High School | 1,300,607 | 1,298,648 | 1,959 |
| TOTAL BASIC PROGRAMS | 5,177,871 | 5,175,912 | 1,959 |
| ADDED NEEDS | | | |
| Special Education | 871,172 | 869,530 | 1,642 |
| Compensatory Education | 744,827 | 688,383 | 56,444 |
| TOTAL ADDED NEEDS | 1,615,999 | 1,557,913 | 58,086 |
| **TOTAL INSTRUCTION** | 6,793,870 | 6,733,825 | 60,045 |
| **SUPPORTING SERVICES** | | | |
| PUPIL | | | |
| Guidance | 136,089 | 134,097 | 1,992 |
| Health Services | 39,200 | 38,226 | 974 |
| Social Work Services | 55,739 | 49,327 | 6,412 |
| TOTAL PUPIL | 231,028 | 221,650 | 9,378 |
| INSTRUCTIONAL STAFF | | | |
| Improvement of Instruction | 6,901 | 6,408 | 493 |
| Educational Media Services | 25,159 | 25,081 | 78 |
| Computer Assisted Instruction | 2,288 | - | 2,288 |
| Supervision and Direction of Instruction | 25,950 | 24,065 | 1,885 |
| TOTAL INSTRUCTIONAL STAFF | 60,298 | 55,554 | 4,744 |
| ADMINISTRATION | | | |
| Board of Education | 54,019 | 53,178 | 841 |
| Executive Administration | 144,610 | 142,556 | 2,054 |
| Principal's Office | 374,462 | 368,803 | 5,659 |
| School Administration | 1,100 | 1,094 | 6 |
| TOTAL ADMINISTRATION | 574,191 | 565,631 | 8,560 |
| BUSINESS SERVICES | | | |
| Fiscal Services | 199,928 | 199,867 | 61 |
| Other Business Services | 72,736 | 70,779 | 1,957 |
| TOTAL BUSINESS SERVICES | $ 272,664 | $ 270,646 | $ 2,018 |

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

## YEAR ENDED JUNE 30, 2016

| | Budget | Actual | Variance Favorable (Unfavorable) |
|---|---|---|---|
| **EXPENDITURES (CONTINUED)** | | | |
| **SUPPORTING SERVICES (CONTINUED)** | | | |
| OPERATIONS AND MAINTENANCE | | | |
| Operating Building Services | $ 525,500 | $ 520,587 | $ 4,913 |
| Security Services | - | - | - |
| TOTAL OPERATIONS AND MAINTENANCE | 525,500 | 520,587 | 4,913 |
| TRANSPORTATION | 511,718 | 507,001 | 4,717 |
| INFORMATION MANAGEMENT | | | |
| Staff/Personnel Services | 2,025 | 1,943 | 82 |
| Information Management Services | 135,600 | 134,319 | 1,281 |
| Other Central Services | 27,499 | 27,499 | - |
| TOTAL INFORMATION MANAGEMENT | 165,124 | 163,761 | 1,363 |
| ATHLETICS | 199,521 | 197,458 | 2,063 |
| **TOTAL SUPPORTING SERVICES** | 2,540,044 | 2,502,288 | 37,756 |
| **COMMUNITY SERVICES** | | | |
| Community Recreation | 1,313 | 21 | 1,292 |
| Community Activities | 1,974 | 976 | 998 |
| Custody and Care of Children | 18,222 | 18,180 | 42 |
| **TOTAL COMMUNITY SERVICES** | 21,509 | 19,177 | 2,332 |
| **DEBT SERVICE** | 128,984 | 128,975 | 9 |
| **CAPITAL OUTLAY** | 267,937 | 267,937 | - |
| **TOTAL EXPENDITURES** | 9,752,344 | 9,652,202 | 100,142 |
| **EXCESS OF REVENUE OVER (UNDER) EXPENDITURES** | (241,342) | (213,563) | 27,779 |
| **OTHER FINANCING SOURCES (USES)** | | | |
| Indirect Costs | 14,700 | 8,701 | (5,999) |
| Loan Proceeds | 136,800 | 136,800 | - |
| Operating Transfers In | - | - | - |
| Operating Transfers (Out) | - | - | - |
| **TOTAL OTHER FINANCING SOURCES (USES)** | 151,500 | 145,501 | (5,999) |
| **EXCESS OF REVENUE AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES** | $ (89,842) | (68,062) | $ 21,780 |
| FUND BALANCE - JULY 1, 2015 | | 1,081,584 | |
| **FUND BALANCE - JUNE 30, 2016** | | $ 1,013,522 | |

# SPECIAL REVENUE FUND

# COMPARATIVE BALANCE SHEET

## JUNE 30, 2016 AND 2015

| | 2016 | 2015 |
|---|---|---|
| **ASSETS** | | |
| Cash and Investments | $ 97,962 | $ 91,546 |
| Due from Other Governmental Units | - | - |
| Due from Other Funds | 91,127 | 99,242 |
| Prepaid Expenses | - | - |
| Inventory | 4,175 | 6,121 |
| **TOTAL ASSETS** | $ 193,264 | $ 196,909 |
| **LIABILITIES AND FUND BALANCE** | | |
| LIABILITIES | | |
| Accounts Payable | $ 34,010 | $ 16,287 |
| Accrued Salaries | - | - |
| Accrued Expenses | - | - |
| Due to Other Funds | - | - |
| TOTAL LIABILITIES | 34,010 | 16,287 |
| FUND BALANCE | | |
| Non-Spendable | 4,175 | 6,121 |
| Restricted | 155,079 | 174,501 |
| TOTAL FUND BALANCE | 159,254 | 180,622 |
| **TOTAL LIABILITIES AND FUND BALANCE** | $ 193,264 | $ 196,909 |

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

## YEAR ENDED JUNE 30, 2016

| | Budget | Actual | Variance Favorable (Unfavorable) | Prior Year Actual |
|---|---|---|---|---|
| **REVENUE** | | | | |
| Hot Lunch Receipts | | | | |
| Students | $ 50,641 | $ 42,705 | $ (7,936) | $ 48,152 |
| Adults | 1,000 | 991 | (9) | 1,335 |
| Ala Carte | 5,837 | 5,837 | - | 6,953 |
| State Aid | 18,000 | 18,320 | 320 | 16,084 |
| Federal Aid | 366,583 | 366,622 | 39 | 386,665 |
| Federal USDA Commodities in Kind | 28,000 | 27,538 | (462) | 27,201 |
| Other Income | 39,784 | 39,815 | 31 | 37,181 |
| Interest Income | 61 | 63 | 2 | 66 |
| **TOTAL REVENUE** | 509,906 | 501,891 | (8,015) | 523,637 |
| **EXPENDITURES** | | | | |
| Salaries | 162,000 | 161,265 | 735 | 154,977 |
| Fringe Benefits | 60,287 | 57,570 | 2,717 | 58,616 |
| Professional Services | - | - | - | 501 |
| Contracted Services | 7,200 | 7,159 | 41 | 12,234 |
| Food and Supplies | 233,100 | 231,433 | 1,667 | 248,153 |
| Professional Development | 1,000 | 907 | 93 | - |
| Dues and Fees | 2,274 | 2,274 | - | 1,721 |
| Miscellaneous | 4,060 | 4,033 | 27 | 358 |
| Postage | 115 | 103 | 12 | 114 |
| Repairs | 5,826 | 5,825 | 1 | - |
| Utilities | 4,000 | 3,903 | 97 | 3,453 |
| Capital Outlay | 40,500 | 40,086 | 414 | 59,851 |
| **TOTAL EXPENDITURES** | 520,362 | 514,558 | 5,804 | 539,978 |
| **EXCESS REVENUE OVER (UNDER) EXPENDITURES** | (10,456) | (12,667) | (2,211) | (16,341) |
| **OTHER FINANCING SOURCES (USES)** | | | | |
| Indirect Costs | (14,700) | (8,701) | 5,999 | (15,900) |
| Operating Transfers In | - | - | - | - |
| Operating Transfers (Out) | - | - | - | - |
| **TOTAL OTHER FINANCING SOURCES (USES)** | (14,700) | (8,701) | 5,999 | (15,900) |
| **EXCESS REVENUE AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND AND OTHER USES** | $ (25,156) | (21,368) | $ 3,788 | $ (32,241) |
| FUND BALANCE - BEGINNING OF YEAR | | 180,622 | | |
| **FUND BALANCE - END OF YEAR** | | $ 159,254 | | |

# DEBT RETIREMENT FUNDS

## COMBINING BALANCE SHEET

### JUNE 30, 2016

| | QZAB | Refund 2016 | Refund 2009 | 2009 | 2008A | Total |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Cash and Investments | $ - | $ - | $ 144,119 | $ 1,194 | $ 85 | $ 145,398 |
| Due from Other Funds | - | 2,043 | - | 38,301 | 52,976 | 93,320 |
| **TOTAL ASSETS** | $ - | $ 2,043 | $ 144,119 | $ 39,495 | $ 53,061 | $ 238,718 |
| **LIABILITIES AND FUND BALANCE** | | | | | | |
| LIABILITIES | | | | | | |
| Accounts Payable | $ - | $ - | $ - | $ - | $ - | $ - |
| Due to Other Funds | - | - | 91,277 | - | - | 91,277 |
| TOTAL LIABILITIES | - | - | 91,277 | - | - | 91,277 |
| FUND BALANCE | | | | | | |
| Fund Balance | - | 2,043 | 52,842 | 39,495 | 53,061 | 147,441 |
| TOTAL FUND BALANCE | - | 2,043 | 52,842 | 39,495 | 53,061 | 147,441 |
| **TOTAL LIABILITIES AND FUND BALANCE** | $ - | $ 2,043 | $ 144,119 | $ 39,495 | $ 53,061 | $ 238,718 |

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

**YEAR ENDED JUNE 30, 2016**

| | QZAB | Refund 2016 | Refund 2009 | 2009 | 2008A | Total |
|---|---|---|---|---|---|---|
| **REVENUE** | | | | | | |
| Current Taxes | $ - | $ - | $ 364,570 | $ 265,886 | $ 368,366 | $ 998,822 |
| Delinquent Taxes | - | - | - | - | - | - |
| Interest and Penalties on on Delinquent Property Taxes | - | - | - | - | - | - |
| Earned Interest | 2,556 | - | 392 | 15 | 17 | 2,980 |
| State Aid Revenue | - | - | - | - | - | - |
| Miscellaneous | - | - | - | - | - | - |
| **TOTAL REVENUE** | 2,556 | - | 364,962 | 265,901 | 368,383 | 1,001,802 |
| **EXPENDITURES** | | | | | | |
| Principal on Bonds | 130,337 | - | 345,000 | 190,000 | 220,000 | 885,337 |
| Interest on Bonds | - | - | 126,186 | 221,805 | 392,124 | 740,115 |
| Principal on School Loan Rev. Fund | - | 4,516,708 | - | - | - | 4,516,708 |
| Interest on School Loan Rev. Fund | - | 654,292 | - | - | - | 654,292 |
| Agent Fees and Other | - | 91,957 | 150 | 150 | 150 | 92,407 |
| **TOTAL EXPENDITURES** | 130,337 | 5,262,957 | 471,336 | 411,955 | 612,274 | 6,888,859 |
| **EXCESS REVENUE OVER (UNDER) EXPENDITURES** | (127,781) | (5,262,957) | (106,374) | (146,054) | (243,891) | (5,887,057) |
| **OTHER FINANCING SOURCES (USES)** | | | | | | |
| Bond Proceeds | - | 5,265,000 | 101,666 | 153,980 | 251,574 | 5,772,220 |
| Operating Transfers In | - | - | - | - | - | - |
| Operating Transfers (Out) | - | - | - | - | - | - |
| **TOTAL OTHER FINANCING SOURCES (USES)** | - | 5,265,000 | 101,666 | 153,980 | 251,574 | 5,772,220 |
| **EXCESS REVENUE AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES** | (127,781) | 2,043 | (4,708) | 7,926 | 7,683 | (114,837) |
| FUND BALANCE - BEGINNING OF YEAR | 127,781 | - | 57,550 | 31,569 | 45,378 | 262,278 |
| **FUND BALANCE - END OF YEAR** | $ - | $ 2,043 | $ 52,842 | $ 39,495 | $ 53,061 | $ 147,441 |

# AGENCY FUND

# STATEMENT OF ASSETS AND LIABILITIES

## JUNE 30, 2016

| | | |
|---|---|---|
| **ASSETS** | | |
| Cash and Investments | $ | 58,831 |
| **TOTAL ASSETS** | $ | 58,831 |
| **LIABILITIES** | | |
| Due to Others | $ | 226 |
| Due to Student Groups | | 58,605 |
| **TOTAL LIABILITIES** | $ | 58,831 |

# STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

## YEAR ENDED JUNE 30, 2016

| | July 1, 2015 | Receipts | Disbursements | June 30, 2016 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash | $ 87,473 | $ 169,392 | $ 198,034 | $ 58,831 |
| **LIABILITIES** | | | | |
| Due to Others | | | | |
| Community Education | $ 201 | $ 25 | $ - | $ 226 |
| Due to Student Groups | 87,272 | 169,367 | 198,034 | 58,605 |
| | $ 87,473 | $ 169,392 | $ 198,034 | $ 58,831 |

## DETAILED STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

### YEAR ENDED JUNE 30, 2016

| ACTIVITY | Balance July 1, 2015 | Receipts | Disbursements | Balance June 30, 2016 |
|---|---|---|---|---|
| **Due to Others** | | | | |
| Community Education Checking | $ 201 | $ 25 | $ - | $ 226 |
| **Due to Student Groups** | | | | |
| **Elementary** | | | | |
| Elementary Art Mural | $ 2,501 | $ - | $ 725 | $ 1,776 |
| Elementary Library Fund | 974 | 64 | 486 | 552 |
| Elementary PE Classes | 60 | 2,212 | 2,168 | 104 |
| Elementary Literacy Activity | 213 | - | - | 213 |
| Elementary Playground | 563 | - | - | 563 |
| Elementary School Store | - | 1,440 | 1,290 | 150 |
| Elementary Special Ed Act | 37 | 66 | 50 | 53 |
| PBIS Activities | - | 255 | 43 | 212 |
| Summer Camp | 6 | - | - | 6 |
| Class of 2024 | 84 | 1,280 | 1,327 | 37 |
| Class of 2025 | 38 | 2,024 | 2,094 | (32) |
| Class of 2026 | 2 | 927 | 857 | 72 |
| Class of 2027 | 112 | 596 | 597 | 111 |
| Class of 2028 | | 632 | 624 | 8 |
| **Total Elementary** | 4,590 | 9,496 | 10,261 | 3,825 |
| **Middle School** | | | | |
| 5th Grade School Store | 2,019 | 1,374 | 830 | 2,563 |
| 5th and 6th Grade Student Council | 404 | - | - | 404 |
| 7th and 8th Grade Student Council | 267 | - | - | 267 |
| 8th Grade Reserve Account | 4 | 757 | - | 761 |
| 7th Grade Reserve Account | 1,118 | 611 | 110 | 1,619 |
| 6th Grade Reserve Account | 2,617 | 1,773 | 1,483 | 2,907 |
| Amusement Park Physics | 122 | - | - | 122 |
| MS Carnival | 1,290 | - | 114 | 1,176 |
| MS Rocketry Club | 2 | - | - | 2 |
| MS Yearbook | 286 | - | - | 286 |
| Class of 2020 | 1,089 | 8,326 | 7,514 | 1,901 |
| Class of 2021 | 9,381 | 9,601 | 18,693 | 289 |
| Class of 2022 | 462 | 16,297 | 16,274 | 485 |
| Class of 2023 | 4 | 6,579 | 6,162 | 421 |
| **Total Middle School** | 19,065 | 45,318 | 51,180 | 13,203 |
| **High School** | | | | |
| Band | 3,724 | 14,128 | 12,200 | 5,652 |
| HS Art/Photography | 776 | - | 205 | 571 |
| Choir | $ 143 | $ - | $ - | $ 143 |

## DETAILED STATEMENT OF CHANGES IN ASSETS AND LIABILITIES (CONTINUED)

### YEAR ENDED JUNE 30, 2016

| | Balance July 1, 2015 | Receipts | Disbursements | Balance June 30, 2016 |
|---|---|---|---|---|
| **Due to Student Groups (Continued)** | | | | |
| **High School (Continued)** | | | | |
| Color Guard | $ 341 | $ - | $ - | $ 341 |
| Drama | 1,115 | 2,034 | 1,800 | 1,349 |
| HS Library Fund | 271 | - | 8 | 263 |
| HS Scholarship Fund | 997 | 1,937 | 2,191 | 743 |
| HS Science Camps | - | 70 | - | 70 |
| HS Science Olympiad | - | 100 | - | 100 |
| HS Student Council | 159 | 394 | 513 | 40 |
| Journalism | 135 | - | - | 135 |
| National Honor Society | 50 | 200 | 48 | 202 |
| Panther Yearbook | 2,631 | 7,252 | 5,936 | 3,947 |
| Ski Club | 216 | - | 35 | 181 |
| Wild Joe Cappuccino | 401 | - | - | 401 |
| Class of 2015 | 1,915 | - | 1,915 | - |
| Class of 2016 | 3,606 | - | 1,234 | 2,372 |
| Class of 2017 | 1,851 | 3,399 | 3,181 | 2,069 |
| Class of 2018 | 899 | - | - | 899 |
| Class of 2019 | 1,800 | - | - | 1,800 |
| **Total High School** | 21,030 | 29,514 | 29,266 | 21,278 |
| **High School Athletics** | | | | |
| Baseball Club | 1,958 | 5,625 | 5,612 | 1,971 |
| Boys Basketball | 2,244 | 980 | 2,876 | 348 |
| Cheerleaders Basketball | 386 | 1,267 | 1,383 | 270 |
| Cheerleaders Football | 2,452 | 748 | 1,053 | 2,147 |
| Cheerleading (Enrichment) | 31 | 4,455 | 3,942 | 544 |
| CE Youth Basketball | 67 | - | - | 67 |
| CE 7/8 Rocket Football | 777 | - | - | 777 |
| Cross Country | 1,108 | 4,957 | 5,170 | 895 |
| Football Club | 10,034 | 16,207 | 31,387 | (5,146) |
| Girls Softball | 339 | 1,694 | 1,057 | 976 |
| Girls Varsity Basketball | 921 | 1,694 | 2,615 | - |
| Golf Team | 28 | 300 | - | 328 |
| HS Boys Track | 939 | 3,722 | 4,321 | 340 |
| HS Girls Track | 744 | 300 | 444 | 600 |
| Mat Maids | 196 | - | - | 196 |
| MS Cross Country | 41 | - | - | 41 |
| MS Track and Field | 28 | - | - | 28 |
| MS Wrestling | 53 | - | - | 53 |
| Todd Walsworth/Rugby Scholarship | - | 945 | 244 | 701 |
| Varsity Club | 4,901 | 6,519 | 7,472 | 3,948 |
| Varsity Wrestling | $ 3,761 | $ 330 | $ 3,899 | $ 192 |

# DETAILED STATEMENT OF CHANGES IN ASSETS AND LIABILITIES (CONTINUED)

## YEAR ENDED JUNE 30, 2016

| | Balance July 1, 2015 | Receipts | Disbursements | Balance June 30, 2016 |
|---|---|---|---|---|
| **Due to Student Groups (Continued)** | | | | |
| **High School Athletics (Continued)** | | | | |
| Wrestling Pink Out | $ 116 | $ 4,435 | $ 4,000 | $ 551 |
| Volleyball Club | 699 | 26,364 | 25,596 | 1,467 |
| Volleyball Against Violence | - | 2,536 | 2,455 | 81 |
| Weight Room Equipment | 95 | - | - | 95 |
| **Total High School Athletics** | 31,918 | 83,078 | 103,526 | 11,470 |
| **Central Office** | | | | |
| Key Card Replacement | 60 | - | - | 60 |
| District Literacy Bus | 7,031 | - | 412 | 6,619 |
| **Total Central Office** | 7,091 | - | 412 | 6,679 |
| **Other** | | | | |
| Interest Earned | 1,233 | 72 | 1,226 | 79 |
| Elementary Checking | 1,199 | 431 | 1,228 | 402 |
| High School Checking | 608 | 1,270 | 885 | 993 |
| Middle School Checking | 538 | 188 | 50 | 676 |
| **Total Other** | 3,578 | 1,961 | 3,389 | 2,150 |
| **Total Due to Student Groups** | 87,272 | 169,367 | 198,034 | 58,605 |
| **TOTAL** | $ 87,473 | $ 169,392 | $ 198,034 | $ 58,831 |

# STATEMENTS OF INDEBTEDNESS

YEAR ENDED JUNE 30, 2016

## 2009 REFUNDING DEBT

| | |
|---|---|
| **Issue Dated February 3, 2009, in the amount of:** | $ 5,430,000 |
| Less: | |
| Bonds Paid in Prior Years | 2,215,000 |
| Bonds Due and Paid in May 1, 2016 | 345,000 |
| **Balance Outstanding - June 30, 2016** | $ 2,870,000 |

Balance Payable as Follows:

| Year | Rate | Interest | Principal | Total |
|---|---|---|---|---|
| 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 |
| | | $ 581,223 | $ 2,870,000 | $ 3,451,223 |

### YEAR ENDED JUNE 30, 2016

## 2009 DEBT

| | |
|---|---|
| **Issue Dated February 3, 2009, in the amount of:** | $ 6,000,000 |
| Less: | |
| Bonds Paid in Prior Years | 805,000 |
| Bonds Due and Paid in May 1, 2016 | 190,000 |
| **Balance Outstanding - June 30, 2016** | $ 5,005,000 |

Balance Payable as Follows:

| Year | Rate | Interest | Principal | Total |
|---|---|---|---|---|
| 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 |
| | | $ 2,592,473 | $ 5,005,000 | $ 7,597,473 |

YEAR ENDED JUNE 30, 2016

## 2008 DEBT (SERIES A)

| | |
|---|---|
| **Issue Dated November 25, 2008, in the amount of:** | $ 9,000,000 |
| Less: | |
| Bonds Paid in Prior Years | 895,000 |
| Bonds Due and Paid in May 1, 2016 | 220,000 |
| **Balance Outstanding - June 30, 2016** | $ 7,885,000 |

Balance Payable as Follows:

| Year | Rate | Interest | Principal | Total |
|---|---|---|---|---|
| 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 |
| | | $ 4,537,627 | $ 7,885,000 | $ 12,422,627 |

### YEAR ENDED JUNE 30, 2016

## 2016 REFUNDING DEBT

| | |
|---|---|
| **Issue Dated April 21, 2016, in the amount of:** | $ 5,265,000 |
| Less: | |
| Bonds Paid in Prior Years | - |
| Bonds Due and Paid in May 1, 2016 | - |
| **Balance Outstanding - June 30, 2016** | $ 5,265,000 |

Balance Payable as Follows:

| Year | Rate | Interest | Principal | Total |
|---|---|---|---|---|
| 2017 | 2.000% | $ 110,957 | $ - | $ 110,957 |
| 2018 | 1.493% | 107,958 | 765,000 | 872,958 |
| 2019 | 1.695% | 96,536 | 825,000 | 921,536 |
| 2020 | 1.969% | 82,552 | 850,000 | 932,552 |
| 2021 | 2.119% | 65,816 | 900,000 | 965,816 |
| 2022 | 2.327% | 46,744 | 950,000 | 996,744 |
| 2023 | 2.527% | 24,638 | 975,000 | 999,638 |
| | | $ 535,201 | $ 5,265,000 | $ 5,800,201 |

## 2011 QZAB DEBT

| | |
|---|---|
| **Issue Dated May 25, 2011, in the amount of:** | $ 130,871 |
| Less: | |
| Bonds Paid in Prior Years | 26,174 |
| Bonds Due and Paid in July 30, 2015 | 104,697 |
| **Balance Outstanding - June 30, 2016** | $ - |

| | |
|---|---|
| **Issue Dated June 30, 2011, in the amount of:** | $ 84,260 |
| Less: | |
| Bonds Paid in Prior Years | 16,852 |
| Bonds Due and Paid in July 30, 2015 | 67,408 |
| **Balance Outstanding - June 30, 2016** | $ - |

YEAR ENDED JUNE 30, 2016

## 2012 QZAB DEBT

| | | |
|---|---|---|
| **Issue Dated June 20, 2012, in the amount of:** | $ | 83,424 |
| Less: | | |
| Bonds Paid in Prior Years | | 50,055 |
| Bonds Due and Paid in July 30, 2015 | | 16,685 |
| **Balance Outstanding - June 30, 2016** | $ | 16,684 |

Balance Payable as Follows:

| Year | Rate | | Interest | | Principal | | Total |
|---|---|---|---|---|---|---|---|
| 2017 | 4.240% | $ | 707 | $ | 16,684 | $ | 17,391 |
| | | $ | 707 | $ | 16,684 | $ | 17,391 |

| | | |
|---|---|---|
| **Issue Dated June 20, 2012, in the amount of:** | $ | 85,558 |
| Less: | | |
| Bonds Paid in Prior Years | | 51,336 |
| Bonds Due and Paid in July 30, 2015 | | 17,111 |
| **Balance Outstanding - June 30, 2016** | $ | 17,111 |

Balance Payable as Follows:

| Year | Rate | | Interest | | Principal | | Total |
|---|---|---|---|---|---|---|---|
| 2017 | 4.240% | $ | 726 | $ | 17,111 | $ | 17,837 |
| | | $ | 726 | $ | 17,111 | $ | 17,837 |

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, 2016

## 2013 QZAB DEBT

| | | | | |
|---|---|---|---|---|
| **Issue Dated June 26, 2013, in the amount of:** | | | | $ 85,806 |
| Less: | | | | |
| Bonds Paid in Prior Years | | | | 34,322 |
| Bonds Due and Paid in June 26, 2016 | | | | 17,161 |
| **Balance Outstanding - June 30, 2016** | | | | $ 34,323 |

Balance Payable as Follows:

| Year | Rate | Interest | Principal | Total |
|---|---|---|---|---|
| 2017 | 0.000% | $ - | $ 17,161 | $ 17,161 |
| 2018 | 0.000% | - | 17,162 | 17,162 |
| | | $ - | $ 34,323 | $ 34,323 |

| | | | | |
|---|---|---|---|---|
| **Issue Dated June 26, 2013, in the amount of:** | | | | $ 95,905 |
| Less: | | | | |
| Bonds Paid in Prior Years | | | | 38,362 |
| Bonds Due and Paid in June 26, 2016 | | | | 19,181 |
| **Balance Outstanding - June 30, 2016** | | | | $ 38,362 |

Balance Payable as Follows:

| Year | Rate | Interest | Principal | Total |
|---|---|---|---|---|
| 2017 | 0.000% | $ - | $ 19,181 | $ 19,181 |
| 2018 | 0.000% | - | 19,181 | 19,181 |
| | | $ - | $ 38,362 | $ 38,362 |

YEAR ENDED JUNE 30, 2016

## 2014 QZAB DEBT

| | | |
|---|---|---|
| **Issue Dated June 18, 2014, in the amount of:** | $ | 86,996 |
| Less: | | |
| Bonds Paid in Prior Years | | 17,399 |
| Bonds Due and Paid in June 18, 2016 | | 17,399 |
| **Balance Outstanding - June 30, 2016** | $ | 52,198 |

Balance Payable as Follows:

| Year | Rate | Interest | | Principal | | Total | |
|---|---|---|---|---|---|---|---|
| 2017 | 0.000% | $ | - | $ | 17,399 | $ | 17,399 |
| 2018 | 0.000% | | - | | 17,399 | | 17,399 |
| 2019 | 0.000% | | - | | 17,400 | | 17,400 |
| | | $ | - | $ | 52,198 | $ | 52,198 |

## 2016 BUS LOAN

| | | |
|---|---|---|
| **Issue Dated February 3, 2016 in the amount of:** | $ | 136,800 |
| Less: | | |
| Bonds Paid in Prior Years | | - |
| Bonds Due and Paid in February 3, 2016 | | - |
| **Balance Outstanding - June 30, 2016** | $ | 136,800 |

Balance Payable as Follows:

| Year | Rate | Interest | | Principal | | Total | |
|---|---|---|---|---|---|---|---|
| 2017 | 1.690% | $ | 2,312 | $ | 44,838 | $ | 47,150 |
| 2018 | 1.690% | | 1,554 | | 45,596 | | 47,150 |
| 2019 | 1.690% | | 784 | | 46,366 | | 47,150 |
| | | $ | 4,650 | $ | 136,800 | $ | 141,450 |

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

### YEAR ENDED JUNE 30, 2016

| Program Title | Federal CDFA Number | Contract Number | Program or Award Amount | Prior Year Expenditure | Cash/ Accrued or (Deferred) Revenue at July 1, 2015 | Receipts/ Revenue Recognized | Disbursements/ Expenditures | Cash/ Accrued or (Deferred) Revenue at June 30, 2016 | Cash Transferred to Subrecipients |
|---|---|---|---|---|---|---|---|---|---|
| **U.S. DEPARTMENT OF EDUCATION** | | | | | | | | | |
| Passed Through Michigan State Dept. of Education | | | | | | | | | |
| Title I | *84.010 | 1515301415 | $ 331,572 | $ 315,511 | $ 78,386 | $ 78,386 | $ - | $ - | $ - |
| Title I | *84.010 | 1615301516 | 300,465 | - | - | 228,093 | 284,639 | 56,546 | - |
| | | | | 315,511 | 78,386 | 306,479 | 284,639 | 56,546 | - |
| Title VI Rural and Low-Income Grant | 84.358 | 1606601516 | 21,485 | - | - | 17,304 | 18,809 | 1,505 | - |
| Title VI Rural and Low-Income Grant | 84.358 | 1506601415 | 21,521 | 20,880 | 2,097 | 2,097 | - | - | - |
| | | | | 20,880 | 2,097 | 19,401 | 18,809 | 1,505 | - |
| Title IIA Teacher Training and Recruiting | 84.367 | 1505201415 | 81,507 | 54,074 | 6,524 | 6,524 | - | - | - |
| Title IIA Teacher Training and Recruiting | 84.367 | 1605201516 | 91,870 | - | - | 64,671 | 69,007 | 4,336 | - |
| | | | | 54,074 | 6,524 | 71,195 | 69,007 | 4,336 | - |
| Passed Through Newago County RESA | | | | | | | | | |
| IDEA | 84.027A | | 135,517 | - | 69,135 | 186,395 | 137,517 | 20,257 | - |
| **TOTAL U.S. DEPARTMENT OF EDUCATION** | | | | $ 390,465 | $ 156,142 | $ 583,470 | $ 509,972 | $ 82,644 | $ - |

* Major Program

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

### YEAR ENDED JUNE 30, 2016

| Program Title | Federal CDFA Number | Contract Number | Program or Award Amount | Prior Year Expenditure | Cash/ Accrued or (Deferred) Revenue at July 1, 2015 | Receipts/ Revenue Recognized | Disbursements/ Expenditures | Cash/ Accrued or (Deferred) Revenue at June 30, 2016 | Cash Transferred to Subrecipients |
|---|---|---|---|---|---|---|---|---|---|
| **U.S. DEPARTMENT OF AGRICULTURE** | | | | | | | | | |
| Passed Through Oceana County | | | | | | | | | |
| Schools and Roads | 10.665 | | $ 10,592 | $ - | $ - | $ 10,592 | $ 10,592 | $ - | $ - |
| Child Nutrition Cluster | | | | | | | | | |
| U.S.D.A Food Distribution | | | | | | | | | |
| Entitlement Commodities | 10.555 | Various | 27,538 | - | - | 27,538 | 27,538 | - | - |
| Bonus Commodities | 10.555 | Various | - | - | - | - | - | - | - |
| | | | | - | - | 27,538 | 27,538 | - | - |
| Passed Through State Department of Education | | | | | | | | | |
| National School Lunch Program | 10.555 | 151960,141960 | 246,394 | - | 3,993 | 250,387 | 246,394 | - | - |
| Special Breakfast | 10.553 | 151970,161970 | 120,228 | - | 3,049 | 123,277 | 120,228 | - | - |
| | | | | - | 7,042 | 373,664 | 366,622 | - | - |
| Total Child Nutrition Cluster | | | | - | 7,042 | 401,202 | 394,160 | - | - |
| **TOTAL U.S. DEPARTMENT OF AGRICULTURE** | | | | - | 7,042 | 411,794 | 404,752 | - | - |
| **TOTAL FEDERAL ASSISTANCE** | | | | $ 390,465 | $ 163,184 | $ 995,264 | $ 914,724 | $ 82,644 | $ - |

* Major Program

## FOOTNOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**JUNE 30, 2016**

### NOTE 1 - MAJOR PROGRAMS

The School has one major program - Title One. Total expenditures during the year ended June 30, 2016, were $284,639.

### 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, 2016, were recorded as accrued revenue. Expenditures are recorded when the expense is incurred. Amounts received but not spent by June 30, 2016, 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, 2016

| | Financial Statement | Awards Schedule |
|---|---|---|
| **DEPARTMENT OF EDUCATION GRANTS** | | |
| GENERAL FUND | | |
| Title I | $ 284,639 | $ 284,639 |
| IDEA | 137,517 | 137,517 |
| Title VI | 18,809 | 18,809 |
| Teacher Training and Recruiting | 69,007 | 69,007 |
| **TOTAL DEPARTMENT OF EDUCATION GRANTS** | 509,972 | 509,972 |
| **DEPARTMENT OF AGRICULTURE GRANTS** | | |
| SCHOOL LUNCH FUND | | |
| Commodities | 27,538 | 27,538 |
| National School Lunch | 246,394 | 246,394 |
| Special Breakfast | 120,228 | 120,228 |
| TOTAL SCHOOL LUNCH FUND | 394,160 | 394,160 |
| GENERAL FUND | | |
| Schools and Roads | 10,592 | 10,592 |
| **TOTAL DEPARTMENT OF AGRICULTURE GRANTS** | 404,752 | 404,752 |
| **INTERNAL REVENUE SERVICE** | | |
| US Treasury Interest | 2,671 | - |
| **GRAND TOTAL** | $ 917,395 | $ 914,724 |

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

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**Horton, MI 49246** **Email: kdrakecpa@gmail.com**

## 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, 2016, 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 August 17, 2016.

**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 an 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

August 17, 2016

**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 THE UNIFORM GUIDANCE

## 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 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, 2016. 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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, 2016.

**Other Matters**

The results of our auditing procedures disclosed no instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance.

**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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

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

We have audited the financial statements of Hesperia Community Schools as of and for the year ended June 30, 2016, and have issued our report thereon dated August 17, 2016, 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 the Uniform Guidance 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
August 17, 2016

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

### YEAR ENDED JUNE 30, 2016

**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 - Title One.

6. The dollar threshold used to distinguish between Type A and Type B programs was $750,000.

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, 2016

There were no prior year audit findings.