

Hillsdale Community Schools

Financial Report
With Supplemental Information

Year Ended June 30, 2016

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WILLIS & JURASEK

CPAs AND CONSULTANTS

Independent Auditors' Report

Board of Education
Hillsdale Community Schools
Hillsdale, 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 Hillsdale Community Schools, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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 Hillsdale Community Schools, as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and certain pension information as identified in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2016 (under separate cover), on our consideration of Hillsdale Community Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hillsdale Community Schools' internal control over financial reporting and compliance.

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.

September 15, 2016

Hillsdale Community Schools

Management's Discussion and Analysis Year Ended June 30, 2016

Our discussion and analysis of Hillsdale Community Schools' financial performance provides an overview of the School District's financial activities for the fiscal year ended June 30, 2016. The management's discussion and analysis is provided at the beginning of the audit to provide in layman's terms, the past and current position of the School District's financial condition. This summary should not be taken as a replacement for the audit which consists of the financial statements and other supplemental information that presents all the revenues and expenditures by program for all the District's funds.

USING THIS ANNUAL REPORT

The School District's annual report consists of a series of financial statements that show information for the School District as a whole, its funds, and its fiduciary responsibilities. The Statement of Net Position and the Statement of Activities (pages 1 - 2), provide information about the activities of the School District as a whole and present a longer-term view of the School District's finances. Our fund financial statements start on page 3. Our governmental activities statements tell how we financed our services in the short-term, as well as what remains for future spending. Fund financial statements report the School District's operations in more detail than governmental-wide financial statements by providing information about the School District's most significant funds. The remaining statement provides information about activities for which the School District acts solely as an agent for the benefit of student groups.

Reporting the School District as a Whole

One of the most important questions asked about the School District is, "Is the School District as a whole better off or worse off financially as a result of the year's activities?" The Statement of Net Position and the Statement of Activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps answer this question. We prepared these statements to include all assets and liabilities, using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenue and expenses, regardless of when cash is received or paid.

These two statements report the School District's *net position* – the difference between assets and liabilities – as 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 – are one indicator of whether its *financial health* is improving or deteriorating. The relationship between revenues and expenses indicates the School District's *operating results*. However, the School District's goal is to provide services to our 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 school to assess the *overall health* of the School District.

Reporting the School District's Most Significant Funds

The School District's Fund Financial Statements, which begin on page 3, provide detailed information about the School District's 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 other funds to help it control and manage money for particular purposes (like the Food Service Fund) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (like the Building & Site Fund).

Hillsdale Community Schools

Management's Discussion and Analysis Year Ended June 30, 2016

Governmental fund reporting focuses on showing how money flows into and out of the funds and the balances left at year-end that are available for spending in future periods. 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 School District's operations and the services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between *governmental activities* (reported in the Statement of Net Position and the Statement of Activities) and *governmental funds* in reconciliations on pages 4 and 6.

The School District as Trustee

The School District is the trustee, or agent, for its student activity funds. All of the School District's agent activities are reported in a separate Statement of Assets and Liabilities – Agency Funds on page 7. We exclude these activities 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

The School District's net position at June 30, 2016 was \$(7,027,888). Of this amount, \$(16,900,049) was unrestricted. Restricted net position is reported separately to show legal constraints that limit the School District's ability to use those assets for day-to-day operations. Below we focus our attention on the net position (TABLE 1) and changes in net position (TABLE 2) of the School District's governmental activities.

TABLE 1 – Net Position
June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Current assets	\$ 4,722,264	\$ 4,605,602
Non-current assets	<u>10,429,092</u>	<u>8,726,309</u>
Total assets	<u>15,151,356</u>	<u>13,331,911</u>
Deferred outflows of resources	<u>2,338,824</u>	<u>1,795,764</u>
Current liabilities	3,278,140	2,909,521
Non-current liabilities	<u>20,642,927</u>	<u>17,796,193</u>
Total liabilities	<u>23,921,067</u>	<u>20,705,714</u>
Deferred inflows of resources	<u>597,001</u>	<u>1,941,638</u>
Net position:		
Invested in capital assets – net of related debt	9,584,671	8,584,868
Restricted for capital projects	287,490	1,270,665
Unrestricted	<u>(16,900,049)</u>	<u>(17,375,210)</u>
Total net position	\$ <u>(7,027,888)</u>	\$ <u>(7,519,677)</u>

Hillsdale Community Schools

Management's Discussion and Analysis Year Ended June 30, 2016

The School District as a Whole (Concluded)

TABLE 2 – Changes in Net Position

Years ended June 30, 2016 and 2015

	2016	2015
Program Revenue		
Charges for Services	\$ 228,188	\$ 264,107
Operating Grants and Contributions	2,883,977	2,705,932
General Revenue		
Property Taxes-general purposes	1,998,986	2,007,081
Property Taxes-debt service, building and site	623,552	634,379
State School Aid	7,902,701	8,413,951
Miscellaneous	147,845	146,691
Total Revenue	<u>\$ 13,785,249</u>	<u>\$ 14,172,141</u>
Expenses		
Instruction	\$ 7,737,641	\$ 8,670,000
Support Services	4,004,458	4,270,378
Food Service	775,036	834,748
Community Services	14,921	8,788
Capital Outlay	27,340	18,402
Other	2,531	1,831
Depreciation – Unallocated	722,184	661,629
Interest on Long-Term Debt	8,810	2,114
Total Expenses	<u>\$ 13,292,921</u>	<u>\$ 14,467,890</u>
INCREASE (DECREASE) IN NET POSITION	<u>\$ 492,328</u>	<u>\$ (295,749)</u>

As shown above, the cost of all our governmental activities this year was \$13,292,921. However, the amount that our taxpayers ultimately financed for those activities through school property taxes was \$2,622,538. The remainder of the cost was paid by charges for services, State Aid and use of prior years' accumulation of funds.

There were several reasons for the change in the financial condition from 2015 – 2016:

- Change in pension liability
- Decrease in pupil count
- Continued increases in employee health care costs

MAJOR GOVERNMENTAL FUNDS BUDGETING AND OPERATING HIGHLIGHTS

The School District's budgets are prepared according to Michigan law. The most significant budgeted fund is the General Fund. During the fiscal year ended June 30, 2016, the School District amended the General Fund Budget two times.

Hillsdale Community Schools

Management's Discussion and Analysis Year Ended June 30, 2016

General Fund

The actual revenue and transfers-in of the General Fund was \$12,962,358, above the original budget estimates of \$12,379,842, and above the final amended budget of \$12,929,280. The district benefited from increased enrollment in the GSRP enrollment which increased revenues and there was a slightly higher enrollment than projected based on past trends.

The actual expenditures of the General Fund were \$12,441,652, below the original budget estimates of \$12,559,186, and below the final amended budget of \$12,571,496. The district did not spend its curriculum material adoption budget of \$90,000 prior to the end of the fiscal year of June 30th. Those funds are planned for use in the 2016-17 budget. Additionally, the utility costs were lower than projected based on lower prices and more favorable weather.

CAPITAL ASSET AND DEBT ADMINISTRATION

At the end of fiscal year 2016, the School District had \$27,587,689 invested in land and buildings, furniture and equipment, and vehicles. We have estimated that these assets have depreciated by \$17,158,597 through June 30, 2016; therefore, we currently have net book value of \$10,429,092.

Total additions for consisted of a new school bus, renovations of Gier Elementary, a playground structure for Bailey Early Childhood Center, new signs, a new football scoreboard, and land that was donated to the District.

	2016	2015
Land	\$ 82,434	\$ 76,034
Construction in progress	20,272	248,540
Buildings and improvements	20,884,207	18,465,994
Furniture and equipment	5,089,147	5,054,248
Vehicles	1,279,978	1,191,700
Infrastructure	231,651	231,651
Less: accumulated depreciation	(17,158,597)	(16,541,858)
	<u>\$ 10,429,092</u>	<u>\$ 8,726,309</u>

At June 30, 2016, the School District had \$844,421 in general obligation debt.

	2016	2015
Notes and leases	\$ 164,421	\$ 141,441
Bonds	680,000	70,000
	<u>\$ 844,421</u>	<u>\$ 172,706</u>

Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, was implemented during the previous fiscal year. The purpose of this standard is to improve accounting and financial reporting for pensions. It established standards for measuring and recognizing pension liabilities, pension expenses, and the related deferred inflows and deferred outflows of resources. Implementation of this standard requires recording of the full unfunded portion of the District's pension plan administered through the Michigan Public School Employees' Retirement System (MPERS). The unfunded pension liability has been established through actuarial valuations and will be amortized over a 22 year period beginning with the plan's fiscal

Hillsdale Community Schools

Management's Discussion and Analysis Year Ended June 30, 2016

year-end of September 30, 2014. With the recording of this pension liability, the liabilities of the District exceeded its assets.

FACTORS BEARING ON THE DISTRICT'S FUTURE

The rate of enrollment decline in the district has slowed. In the 2015-16 school year, the enrollment maintained relatively stable throughout the year, with a very slight net gain from the fall count to the winter count.

The expansion of the Early Childhood Center has had a positive impact by expanding program options for families. The pre-school enrollment in the GSRP programs served a record number of children, 80 students total, in both half-day and full-day programs.

The school district is working with outside agencies like Community Action Agency to provide transportation services to their HeadStart students and to rent classroom space for those same programs at the Early Childhood Center.

The expansion of four (4) classrooms and a full size gymnasium at Gier Elementary School has allowed the school to provide K-4 programming for all of the students in the district. This reduced a building transition for students between 3rd and 4th grades. The expansion also allows the school to function more efficiently during breakfast and lunch food service as well as to schedule physical education classes more evenly throughout the instructional day.

The academic success of students within the district continued its upward trend. US News and World Report ranked Hillsdale High School as one of the best high schools in America for college and career readiness, upping the school's already impressive ranking even further to a Silver Medal. This identifies HHS in the Top 10% of all high schools across the United States.

CONTACTING THE SCHOOL DISTRICT FINANCIAL MANAGEMENT

This report is designed to give an overview of the financial conditions of the Hillsdale Community Schools. If you have any questions about this report or need further information, you may contact the Superintendent's Office by phone at 517-437-4401 located at 30 S. Norwood Avenue, Hillsdale, Michigan 49242.

Hillsdale Community Schools

Statement of Net Position

June 30, 2016

	Governmental Activities
Assets:	
Cash and investments	\$ 2,601,873
Receivables	111,849
Due from other governmental units	1,932,505
Inventories	12,986
Prepaid expenditures	63,051
Capital assets:	
Cost of capital assets	27,587,689
Less: accumulated depreciation	(17,158,597)
Net capital assets	10,429,092
Total assets	15,151,356
Deferred Outflows of Resources:	
Pension related	2,338,824
Total deferred outflows of resources	2,338,824
Liabilities:	
Accounts payable and accrued expenses	1,578,140
State aid anticipation notes	1,700,000
Unearned revenue	201,445
Long-term liabilities:	
Due within one year:	
Bonds & notes payable	394,219
Accrued interest	8,840
Due in more than one year:	
Bonds & notes payable	450,202
Compensated absences	81,496
Net pension liability	19,506,725
Total liabilities	23,921,067
Deferred Inflows of Resources:	
Pension related	597,001
Total deferred inflows of resources	597,001
Net Position:	
Invested in capital assets, net of related debt	9,584,671
Restricted for:	
Capital projects	287,490
Unrestricted	(16,900,049)
Total net position	\$ (7,027,888)

Hillsdale Community Schools

Statement of Activities
Year Ended June 30, 2016

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenue</u>		<u>Governmental Activities Net (Expenses) Revenues and Change in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Primary Government				
Governmental activities:				
Instruction	\$ 7,737,641	\$ 5,620	\$ 2,013,738	\$ (5,718,283)
Support services	4,004,458	55,771	260,523	(3,688,164)
Food service activities	775,036	166,797	609,716	1,477
Community services	14,921	-	-	(14,921)
Other	2,531	-	-	(2,531)
Interest on long-term debt	8,810	-	-	(8,810)
Capital outlay	27,340	-	-	(27,340)
Depreciation (unallocated)	722,184	-	-	(722,184)
Total governmental activities	<u>\$ 13,292,921</u>	<u>\$ 228,188</u>	<u>\$ 2,883,977</u>	<u>(10,180,756)</u>
General Revenues:				
Taxes:				
Property taxes, levied for general purposes				1,998,986
Property taxes, levied for debt service				623,552
State aid not restricted to specific purposes				7,902,701
Unrestricted investment earnings				11,352
Other				136,493
Total general revenues				<u>10,673,084</u>
Change in Net Position				492,328
Net Position - Beginning of Year				<u>(7,520,216)</u>
Net Position - End of Year				<u><u>\$ (7,027,888)</u></u>

Hillsdale Community Schools

Balance Sheet
Governmental Funds
June 30, 2016

	<u>General Fund</u>	<u>Building & Site Fund</u>	<u>Nonmajor Food Service Fund</u>	<u>Total Governmental Funds</u>
<u>Assets</u>				
Cash and investments	\$ 2,277,423	\$ 287,490	\$ 36,960	\$ 2,601,873
Due from other funds	16,219	-	-	16,219
Receivable from other governments	1,932,505	-	-	1,932,505
Other receivables	98,050	-	13,799	111,849
Inventories	-	-	12,986	12,986
Prepaid expenditures	15,051	-	48,000	63,051
Total assets	<u>\$ 4,339,248</u>	<u>\$ 287,490</u>	<u>\$ 111,745</u>	<u>\$ 4,738,483</u>
 <u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable	\$ 20,711	\$ -	\$ 12,572	\$ 33,283
Due to other funds	-	-	16,219	16,219
Revenue anticipation notes	1,700,000	-	-	1,700,000
Unearned revenue	196,112	-	5,333	201,445
Salaries payable and related	1,500,249	-	44,608	1,544,857
Accrued expenditures	8,840	-	-	8,840
Total liabilities	<u>3,425,912</u>	<u>-</u>	<u>78,732</u>	<u>3,504,644</u>
 Fund Balances:				
Nonspendable:				
Inventories	-	-	12,986	12,986
Prepaid expenditures	15,051	-	48,000	63,051
Restricted:				
Food services	-	-	(27,973)	(27,973)
Capital projects	-	287,490	-	287,490
Committed	100,000	-	-	100,000
Assigned	187,527	-	-	187,527
Unassigned	610,758	-	-	610,758
Total fund balances	<u>913,336</u>	<u>287,490</u>	<u>33,013</u>	<u>1,233,839</u>
Total liabilities and fund balances	<u>\$ 4,339,248</u>	<u>\$ 287,490</u>	<u>\$ 111,745</u>	<u>\$ 4,738,483</u>

Hillsdale Community Schools

Reconciliation of Fund Balances on the Balance Sheet of Governmental Funds to
Net Position of Governmental Activities on the Statement of Net Position
June 30, 2016

Total Fund Balances - Governmental Funds \$ 1,233,839

Amounts reported for governmental activities in the Statement of Net Position are different because:

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

The cost of capital assets is	\$ 27,587,689	
Accumulated depreciation is	(17,158,597)	
		<u>10,429,092</u>

Long-term liabilities and related deferred outflows and inflows are not due and payable in the current period and not reported in the funds.

Bonds payable	(680,000)	
Notes payable	(164,421)	
Compensated absences	(81,496)	
Deferred outflows related to net pension liability	2,338,824	
Deferred inflows related to net pension liability	(597,001)	
Net pension liability	(19,506,725)	
		<u>(18,690,819)</u>

Total Net Position - Governmental Activities \$ (7,027,888)

Hillsdale Community Schools
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2016

	<u>General Fund</u>	<u>Building & Site Fund</u>	<u>Nonmajor Food Service Fund</u>	<u>Total Governmental Funds</u>
Revenues:				
Local sources	\$ 2,280,179	\$ 627,527	\$ 220,771	\$ 3,128,477
State sources	10,019,934	-	48,288	10,068,222
Federal sources	535,773	-	551,428	1,087,201
Interdistrict and other	126,472	-	-	126,472
Total revenues	<u>12,962,358</u>	<u>627,527</u>	<u>820,487</u>	<u>14,410,372</u>
Expenditures:				
Instruction	8,050,793	-	-	8,050,793
Support services	4,308,263	-	-	4,308,263
Community services	14,921	-	-	14,921
Food service activities	-	-	807,525	807,525
Other	-	323,964	-	323,964
Debt service:				
Principal	65,297	-	-	65,297
Interest and other charges	2,378	-	-	2,378
Capital outlay	-	2,281,739	-	2,281,739
Total expenditures	<u>12,441,652</u>	<u>2,605,703</u>	<u>807,525</u>	<u>15,854,880</u>
Revenues Over (Under) Expenditures	<u>520,706</u>	<u>(1,978,176)</u>	<u>12,962</u>	<u>(1,444,508)</u>
Other Financing Sources (Uses):				
Proceeds from long-term debt, net	-	995,000	-	995,000
Transfers in	-	-	6,590	6,590
Transfers out	(6,590)	-	-	(6,590)
Total other financing sources (uses)	<u>(6,590)</u>	<u>995,000</u>	<u>6,590</u>	<u>995,000</u>
Net Changes in Fund Balances	514,116	(983,176)	19,552	(449,508)
Fund Balances - Beginning of Year	<u>399,220</u>	<u>1,270,666</u>	<u>13,461</u>	<u>1,683,347</u>
Fund Balances - End of Year	<u>\$ 913,336</u>	<u>\$ 287,490</u>	<u>\$ 33,013</u>	<u>\$ 1,233,839</u>

Hillsdale Community Schools

Reconciliation of the Statement of Revenues, 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 \$ (449,508)

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	\$ (722,184)	
Capital outlay	<u>2,429,423</u>	1,707,239

Governmental funds report the entire net sales price (proceeds) from the sale of assets as revenue because it provides current financial resources. In contrast, the Statement of Activities reports only the gain or loss on the sale of assets. Thus, the change in net position differs from the change in fund balance by the cost of the assets sold.

Net book value of assets sold		(4,456)
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Governmental funds report bond proceeds as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of bond principal as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. This is the amount by which repayments exceeded proceeds.

Debt issued	(1,083,278)	
Repayments to bond & note holders	380,298	
Change in compensated absences	<u>(2,315)</u>	(705,295)

Governmental funds report the required pension contributions for the fiscal year June 30, 2016 as an expenditure. The Statement of Activities reports the fully accrued pension expense based upon a September year-end to coincide with the State of Michigan's fiscal year.

Changes in pension related liabilities and deferrals		(55,652)
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Change in Net Position of Governmental Activities: \$ 492,328

Hillsdale Community Schools Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies

The basic financial statements of Hillsdale Community Schools (the “School District” or “District”) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District’s accounting policies are described below.

Reporting Entity

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the 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 District does not contain any component units.

Measurement Focus, Basis of Accounting, and Financial Statement 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. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District’s government-wide activities are considered governmental activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly 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 unrestricted items are not included as program revenues but instead as general revenue. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

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

It is the District’s policy to allocate resource outlays first to restricted net position with the remainder allocated to unrestricted net position.

As a general rule, the effect of interfund 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

Hillsdale Community Schools
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Fund-Based Statements (Continued) - the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. 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, severance pay, claims, and judgments, are recorded only when payment is due.

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

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

The School District reports the following major governmental funds:

General Fund – The General Fund is the School District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

Building & Site Fund – The Building & Site Fund is used to record tax receipts or other revenue and the disbursement of monies specifically designated for acquiring new school sites, buildings, equipment, and for remodeling.

Additionally, the government reports the following fund types:

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes (not including expendable trusts or major capital projects). The Special Revenue Fund maintained by the District is the Food Service Fund.

Fiduciary Funds – Fiduciary Funds are used to account for assets held by the District in a trustee capacity or as an agent. Fiduciary Fund net assets and results of operations are not included in the district-wide statements.

The agency funds are custodial in nature (assets equal liabilities) and do not involve measurements of results of operations. The District presently maintains a Student Activities Fund to record the transactions of student and parent groups for school-related purposes. The funds are segregated and held in trust for the students and parents.

Revenue, Assets, Liabilities, and Net Position or Equity

State Revenue – The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The foundation is funded from State and local sources. Revenues from State sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of State funds to school districts based on information supplied by the districts. For the year ended June 30, 2016, the foundation allowance was based on pupil membership counts taken in February 2015 and September 2015.

The State portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2015 to August 2016.

Hillsdale Community Schools
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Revenue, Assets, Liabilities, and Net Position or Equity (Continued)

State Revenue (Continued) - Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the State of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

Property Taxes - Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2016, the District levied the following amounts per \$1,000 of assessed valuation:

General Fund – non-primary residence	18.0000
General Fund – commercial personal property	6.0000
Building & Site Fund	1.9988

Deposits and Investments – Cash and cash equivalents include cash on hand, demand deposits, and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and GASB Statement No. 40, *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the District intends to hold the investment until maturity. Accordingly, investments in bankers' acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the District to invest in bonds, and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; and in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “advances to/from other funds.” Property tax and other trade receivables are shown net of an allowance for uncollectible amounts. The District has determined the uncollectible amounts are immaterial and no provision has been recorded.

Hillsdale Community Schools
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Revenue, Assets, Liabilities, and Net Position or Equity (Continued)

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

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

Fixed assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	15-50 years
Infrastructure	20 years
Buses and other vehicles	5-10 years
Furniture and equipment	5-10 years

Compensated Absences - The District reports a liability for compensated absences which consists of unpaid, accumulated sick leave balances. The liability has been calculated using the vesting method in which leave amounts for employees who are currently eligible to receive termination payments are included.

Long-Term Obligations – In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bond premiums and discounts 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 expensed as incurred.

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.

Fund Equity – The District has implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. In accordance with this guidance, fund balances of governmental funds are categorized according to five defined categories of fund balance. These categories consist of nonspendable amounts which are legally or contractually required to be maintained intact, restricted amounts that are constrained for specific purposes set by external parties or law, committed amounts that are constraints set by the highest decision making authority (the School Board) and may only be removed by those individuals, assigned amounts that have an intended but no formal specific purpose, and unassigned amounts which are the residual of the other categories and have no specific purpose.

It is the District's policy to generally use fund balance in order according to the hierarchy of fund balance categories, from restricted down to unassigned.

Defined Benefit Pension Plan – 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 Employees' Retirement System (MPERS) and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are

Hillsdale Community Schools
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Defined Benefit Pension Plan (Continued) - 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. See Note 11 for detailed information.

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

Note 2 – Stewardship, Compliance, and Accountability

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriations lapse at fiscal year-end. The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplemental information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the *Uniform Budgeting and Accounting Act* (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, for the General Fund are noted in the required supplemental information section.
4. The Superintendent is authorized to transfer budgeted amounts between major expenditures functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.
6. The budget was amended during the year with supplemental appropriations, the last one approved prior to fiscal year-end.

Note 3 – Deposits and Investments

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

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Cash and cash equivalents	\$ <u>2,601,873</u>	\$ <u>150,016</u>	\$ <u>2,751,889</u>

Hillsdale Community Schools
Notes to Financial Statements

Note 3 – Deposits and Investments (Continued)

The breakdown between deposits and investments for the School District is as follows:

Deposits (checking and savings accounts)	\$2,751,789
Petty cash and cash on hand	<u>100</u>
Total	<u>\$2,751,889</u>

Investment and Deposit Risk – The District’s cash and investments are subject to several types of risk, as noted below.

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that in the event of a bank failure, the District’s deposits may not be returned. The District requires that financial institutions be evaluated and only those with an acceptable risk level are used for the District’s deposits for custodial credit risk. At year-end, the District’s deposit balance of approximately \$2,787,000 had \$2,287,000 of bank deposits that were uninsured and uncollateralized.

Custodial Credit Risk – Investments – Custodial credit risk of investments is the risk that, in the event of the failure of the counterparty, the 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 District does not have an investment policy for custodial credit risk.

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

Credit Risk – State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers’ acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools. See Note 1 for a full description of allowed investments. The District’s investment policy does not further limit its investment choices.

Note 4 – Receivables

Receivables at year end totaled \$2,044,354 and consist mainly of amounts due from the Michigan Department of Education for State aid and federal grants.

Hillsdale Community Schools
Notes to Financial Statements

Note 5 – Capital Assets

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Year-End Balance</u>
Capital assets not being depreciated:				
Land	\$ 76,034	\$ 6,400	\$ -	\$ 82,434
Construction in progress	248,540	20,272	248,540	20,272
Subtotal	<u>324,574</u>	<u>26,672</u>	<u>248,540</u>	<u>102,706</u>
Capital assets being depreciated:				
Building and improvements	18,465,994	2,518,213	100,000	20,884,207
Infrastructure	231,651	-	-	231,651
Buses and other vehicles	1,191,700	88,278	-	1,279,978
Furniture and equipment	5,054,248	44,800	9,901	5,089,147
Subtotal	<u>24,943,593</u>	<u>2,651,291</u>	<u>109,901</u>	<u>27,484,983</u>
Accumulated depreciation:				
Buildings and improvements	10,477,327	618,467	100,000	10,995,794
Infrastructure	159,455	11,583	-	171,038
Buses and other vehicles	946,049	71,853	-	1,017,902
Furniture and equipment	4,959,027	20,281	5,445	4,973,863
Subtotal	<u>16,541,858</u>	<u>722,184</u>	<u>105,445</u>	<u>17,158,597</u>
Net capital assets being depreciated	<u>8,401,735</u>	<u>1,929,107</u>	<u>4,456</u>	<u>10,326,386</u>
Net capital assets	<u>\$ 8,726,309</u>	<u>\$ 1,955,779</u>	<u>\$ 252,996</u>	<u>\$ 10,429,092</u>

Included in the building and improvements category is an elementary school building that is currently idle and is stated at fair value of \$35,000. Depreciation for the current year totaled \$722,184. The District determined that it was impractical to allocate depreciation to various governmental activities as the assets serve multiple functions.

Note 6 – Interfund Receivables, Payables and Transfers

The District reports interfund balances between some of its funds. The sum of all balances presented in the table below agrees with the sum of interfund balances presented in the statements of net position/balance sheet for governmental funds. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

The composition of interfund balances is as follows:

	<u>Due To:</u>
	<u>General</u>
	<u>Fund</u>
Due From:	
Food Service Fund	\$ <u>16,219</u>

No transfer was made from the Food Service Fund to the General Fund for the current year to cover the indirect costs however \$6,590 was transferred from the General Fund to the food service to cover expenditures allowable under a state grant program.

Hillsdale Community Schools
Notes to Financial Statements

Note 7 – Revenue Anticipation Notes Payable

At June 30, 2016, the School District had State Aid anticipation notes outstanding that totaled \$1,700,000 with interest rates of 0.420%-1.235% and maturity dates of July, 2016 and August, 2016. The notes are secured by the full faith and credit of the District as well as pledged State Aid. It is anticipated the District will issue a new note in August 2016.

<u>Balance</u> <u>June 30, 2015</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>June 30, 2016</u>
<u>\$ 1,070,050</u>	<u>\$ 1,700,000</u>	<u>\$ 1,070,050</u>	<u>\$ 1,700,000</u>

Note 8 – Long-Term Debt

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Activity is summarized as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Amounts Due</u> <u>Within One</u> <u>Year</u>
Governmental Activities:					
Bonds	\$ -	\$ 995,000	\$ 315,000	\$ 680,000	\$ 330,000
Notes & leases	141,441	88,278	65,298	164,421	64,219
Compensated absences	79,181	2,315	-	81,496	-
Total governmental activities	<u>\$ 220,622</u>	<u>\$ 1,085,593</u>	<u>\$ 380,298</u>	<u>\$ 925,917</u>	<u>\$ 394,219</u>

Annual debt service requirements on the above governmental bond and note obligations are as follows:

	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 394,219	\$ 8,858	\$ 403,077
2018	414,524	5,175	419,699
2019	17,683	629	18,312
2020	17,995	317	18,312
Total	<u>\$ 844,421</u>	<u>\$ 14,979</u>	<u>\$ 859,400</u>

Hillsdale Community Schools
Notes to Financial Statements

Note 8 – Long-Term Debt (Continued)

Long-term debt consists of:

Bonds Payable – County National Bank, due in installments of \$315,000 - \$350,000 through May 2018; interest at .50% - 1.00%	\$ 680,000
Note payable – County National Bank, secured by buses; payable in annual installments of \$25,600 plus interest at a rate of 2.01%; matures April 2018	51,200
Note payable – Southern Michigan Bank & Trust, secured by bus; payable in annual installments of \$21,547 plus interest at a rate of 1.04%; matures June 2018	43,094
Note payable – County National Bank, secured by bus; payable in annual installments of \$18,313 plus interest at a rate of 1.74%; matures January 2020	70,127
	\$ 844,421

Note 9 – Committed and Assigned Fund Balance

Portions of fund equity are segregated for specific future use and are, therefore, not available for future general appropriations or expenditure. Assigned fund balance represents those amounts that are expected to be used to cover expenditures that exceed revenue in the subsequent year. Fund balance commitments represent those amounts that are segregated by Board directive for future use:

General Fund

Committed for curriculum	\$ 90,000
Committed for vehicle purchase	10,000
	\$ 100,000

Note 10 – Risk Management

The School District is exposed to various risks of loss related torts; theft of, damage to, and destruction of assets; errors and omissions; employee injuries and natural disasters. The District participates in a distinct pool of educational institutions within the State of Michigan for self-insuring workers' disability compensation. The pool is considered a public entity risk pool. The District pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said year, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The pool maintains reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The District has not been informed of any special assessments being required.

The School District has purchased commercial insurance for other risks of loss, including property and casualty, errors and omissions, fleet, and employee health and accident insurance. Settled claims relating to the commercial insurance did not exceed the amount of insurance coverage in any of the past three fiscal years.

Hillsdale Community Schools
Notes to Financial Statements

Note 11 – Defined Benefit Pension Plan and Post-Employment Benefits

Organization

Plan Description – The School District participates in the Michigan Public School Employees' Retirement System ("MPERS" or "the System"), a State-wide, cost-sharing, multiple-employer defined benefit public employee retirement plan governed by the State of Michigan. The System's pension plan was established by the State to provide retirement, survivor, and disability benefits to public school employees and their beneficiaries, and covers substantially all employees of the School District. In addition, the System's health plan provides postemployment healthcare benefits to all retirees and beneficiaries as an elective option including health, dental, and vision coverage. There are currently approximately 700 participating employers in the System which meets the definition of a qualified pension trust fund under Section 401(a) of the Internal Revenue Code.

The System was originally created under Public Act 136 of 1945, recodified, and currently operates under the provisions of Public Act 300 of 1980, as amended. Section 25 of this Act establishes a governing board and its authority to promulgate or amend the provisions of the System. The board consists of twelve members – eleven appointed by the Governor plus the State Superintendent of Instruction, who serves as an ex-officio member.

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

The System's financial statements are included as a pension and other employee benefit trust fund in the State of Michigan Comprehensive Annual Financial Report and are available at www.michigan.gov/mpsers-cafr. Information provided in this report includes financial data, actuarial assumptions data, and detailed information about the pension plan's fiduciary net position.

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

Hillsdale Community Schools
Notes to Financial Statements

Note 11 – Defined Benefit Pension Plan and Post-Employment Benefits (Continued)

Organization (Continued)

Contributions – Public Act 300 of 1980, as amended, requires contributions from both the participating employers and the plan members. The School District, as a participating employer, is required to contribute amounts necessary to finance the coverage of pension benefits of active and retired members. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature. Under these provisions, each school district's contribution is expected to finance the costs of benefits earned by employees (plan members) during the year, with an additional amount paid in to finance a portion of the unfunded accrued liability.

The System is set up with seven different benefit options which are available to plan members (employees) based on date of hire. Depending on the plan selected, plan member contributions range from 0% up to 7% of gross wages. Plan members electing into the defined contribution plan are not required to make additional contributions.

The School District's contributions are determined based on employee elections. Contribution rates are adjusted annually by ORS. For the reported year, the rates ranged from 18.76% to 23.07% for the period of July 1, 2015 through September 30, 2015 and 14.56% to 18.95% for the period of October 1, 2015 through June 30, 2016.

The District's required and actual contributions to the plan for the year ended June 30, 2016 were \$1,856,739. The District's required and actual contributions include an allocation of \$532,389 in revenue received from the State of Michigan, and remitted to the System, to fund the MPSERS unfunded actuarial liability (UAAL) stabilization rate for the year ended June 30, 2016.

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

Proportionate Share of School District's Net Pension Liability - At June 30, 2016, the District reported a liability of \$19,506,725 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 30, 2014. The District's proportionate share 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 statutorily required pension contributions from all applicable employers during the measurement period. At September 30, 2015, the District's proportionate share percent was .07986368 percent, a decrease of .00012368 percent from its proportion measured as of September 30, 2014.

Pension Expense - For the year ended June 30, 2016, the School District recognized pension expense of \$1,655,568, exclusive of payments to fund the MPSERS UAAL stabilization rate.

Hillsdale Community Schools
Notes to Financial Statements

Note 11 – Defined Benefit Pension Plan and Post-Employment Benefits (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Deferred Outflows and Deferred Inflows - At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 99,566	\$ 64,612
Changes of assumptions	480,297	-
Net difference between projected and actual earnings on pension plan investments	-	-
Changes in proportion and differences between reporting unit contributions and proportionate share of contributions	25,384	-
Reporting unit contributions subsequent to the measurement date	<u>1,733,577</u>	<u>532,389</u>
Total	<u>\$ 2,338,824</u>	<u>\$ 597,001</u>

\$1,733,577 reported as deferred outflows of resources related to pensions resulting from District 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. The remaining other amounts reported as deferred outflows of resources and deferred (inflows) of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30</u>	<u>Amount</u>
2017	\$ 61,569
2018	61,569
2019	35,527
2020	381,970

Payables to the Pension Plan - The District reported an accrued pension plan payable at June 30, 2016 of \$228,462. This amount represents employee withholdings and the employer amount payable for wages earned at June 30, 2016 but not yet paid.

Hillsdale Community Schools
Notes to Financial Statements

Note 11 – Defined Benefit Pension Plan and Post-Employment Benefits (Continued)

Actuarial Assumptions

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

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

A summary of actuarial assumptions as of the latest actuarial valuation follows:

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	3.0% 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.

Notes:

- Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 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 (www.michigan.gov/mpsers-cafr).

Long-Term Expected Rate of 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.

Hillsdale Community Schools
Notes to Financial Statements

Note 11 – Defined Benefit Pension Plan and Post-Employment Benefits (Continued)

Actuarial Assumptions (Continued)

Long-Term Expected Rate of Return on Plan Assets (Continued) – 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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return*</u>
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	<u>2.0%</u>	0.0%
Total	<u>100.0%</u>	

*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). This discount rate was based on the long-term expected rate of return on pension plan investments of 8.0% (7.0% for the Pension Plus plan). The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those 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 benefits payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the 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 Pension Plus Plan), as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher:

<u>Current Single Discount Rate</u>		
<u>1% Decrease (Non-Hybrid/Hybrid)* 7.0%/6.0%</u>	<u>Assumption (Non-Hybrid/Hybrid)* 8.0%/7.0%</u>	<u>1% Increase (Non-Hybrid/Hybrid)* 9.0%/8.0%</u>
<u>\$25,149,169</u>	<u>\$19,506,725</u>	<u>\$14,749,914</u>

*The Basic Plan and the Member Investment Plan (MIP) are non-hybrid plans. Pension Plus is a hybrid plan, with a defined benefit (pension) component and a defined contribution (DC) component.

Hillsdale Community Schools
Notes to Financial Statements

Note 11 – Defined Benefit Pension Plan and Post-Employment Benefits (Continued)

Post-Employment Benefits Other than Pensions (OPEB)

Under the MPSERS act, all participating retirees have the option of continuing health, dental, and vision coverage through MPSERS. Retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent, or 20 percent for those not Medicare eligible, of the monthly premium amount for the various coverages at the time of receiving the benefits. The MPSERS board of trustees annually sets the employer contribution rates to fund the benefits on a pay-as-you-go basis. The employer contribution rate on covered payroll for the period of July 1, 2015 through September 30, 2015 was 2.20% to 2.71% and for the period of October 1, 2015 through June 30, 2016 was 6.04% to 6.83%, dependent upon the employee's date of hire and plan election. Members can choose to contribute 3.0% of their covered payroll to the Retiree Healthcare Fund and keep this premium subsidy benefit or they can elect not to pay the 3.0% contribution and instead choose the Personal Healthcare Fund, which can be used to pay healthcare expenses in retirement. Members electing the Personal Healthcare Fund will be automatically enrolled in a plan with 2.0% employee contributions into their 457 account as of their transition date and with a 2.0% employer match into the employee's 403b account.

The District's required and actual contributions to the plan for retiree healthcare benefits for the years ended June 30, 2016 and 2015 were approximately \$544,280 and \$243,241, respectively. In addition, a portion ranging from 35-100% of the MPSERS unfunded actuarial accrued liability (UAAL) stabilization rate is considered a contribution to the retiree healthcare plan.

Note 12 – Federal and State Grants

The District has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowance under terms of the grants, management believes that any required reimbursements would not be material.

Note 13 - Sinking Fund

The Sinking Fund records capital project activities funded with Sinking Fund millage. For this fund, the School District has complied with the applicable provisions of Section 1212(1) of the Revised School Code and the State of Michigan Department of Treasury Letter No. 01-95.

Note 14 – Upcoming Accounting and Reporting Changes

The Government Accounting Standards Board has issued Statement No. 77, *Tax Abatement Disclosures*. Statement No. 77 requires new government disclosures about tax abatement agreements with entities and individuals including the purpose of the program, the tax being abated, the dollar amount and provisions for recapturing abated taxes as well as the types of commitments made by tax abatement recipients. It also requires disclosures about other commitments made by a government in tax abatement agreements, such as to build infrastructure assets. The new standard also requires disclosures about tax abatements that are entered into by other governments that reduce the reporting government's tax revenues. Statement No. 77 is effective for the year ended June 30, 2017 with earlier application encouraged.

Another upcoming reporting change comes from GASB's issuance of Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Statement No. 75 sets standards for governments that provide postemployment benefits other than pensions (OPEB). Similar to the GASB standards set for pension benefits, the Statement requires the District, as a cost-sharing employer participating in MPSERS, to recognize and report its proportionate share of the MPSERS' net OPEB liability as well as the related deferred inflows and outflows of resources, and expenses/expenditures. The Statement also addresses standards for OPEB note disclosures and required supplementary information. Statement No. 75 will be effective for the District's fiscal year ending June 30, 2018.

Required Supplemental Information

Hillsdale Community Schools
 Budgetary Comparison Schedule - General Fund
 Year Ended June 30, 2016

	Budgeted Amounts		Actual
	Original	Final	
Revenues:			
Local sources	\$ 2,266,813	\$ 2,287,395	\$ 2,280,179
State sources	9,527,835	9,993,567	10,019,934
Federal sources	466,494	530,944	535,773
Interdistrict and other	118,700	117,374	126,472
Total revenues	<u>12,379,842</u>	<u>12,929,280</u>	<u>12,962,358</u>
Expenditures:			
Instruction:			
Basic programs	6,903,634	6,438,120	6,406,456
Added needs	1,103,015	1,645,568	1,627,381
Adult education	43,195	21,956	16,956
Support services:			
Pupil	224,909	184,505	182,100
Instructional staff	173,898	330,911	328,149
General administration	264,346	253,297	248,254
School administration	758,820	722,342	719,744
Business	292,523	308,835	296,030
Operation & maintenance	1,392,629	1,227,609	1,193,855
Pupil transportation	830,008	838,915	829,814
Central services	138,292	157,410	155,934
Athletic activities	327,355	357,944	354,383
Community services:			
Community activities	25,202	16,404	14,921
Debt service:			
Principal	75,876	65,300	65,297
Interest and other charges	5,484	2,380	2,378
Total expenditures	<u>12,559,186</u>	<u>12,571,496</u>	<u>12,441,652</u>
Revenues Over (Under) Expenditures	<u>(179,344)</u>	<u>357,784</u>	<u>520,706</u>
Other Financing Sources (Uses):			
Transfers in	15,500	-	-
Transfers out	-	(7,000)	(6,590)
Total other financing sources (uses)	<u>15,500</u>	<u>(7,000)</u>	<u>(6,590)</u>
Net Changes in Fund Balances	(163,844)	350,784	514,116
Fund Balances - Beginning of Year	<u>384,495</u>	<u>384,495</u>	<u>384,495</u>
Fund Balances - End of Year	<u>\$ 220,651</u>	<u>\$ 735,279</u>	<u>\$ 898,611</u>

Hillsdale Community Schools
Schedule of the District's Contributions to the MPSERS Plan
Last Two Fiscal Years (Amounts Determined Each Year as of June 30)

	<u>2016</u>	<u>2015</u>
Statutorily required contributions	\$ 1,856,739	\$ 1,238,370
Contributions in relation to statutorily required contributions	<u>1,856,739</u>	<u>1,238,370</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Reporting unit's covered-employee payroll	<u>\$ 6,469,382</u>	<u>\$ 6,746,650</u>
Contributions as a percentage of covered-employee payroll	<u>28.70%</u>	<u>18.36%</u>

Hillsdale Community Schools

Schedule of the District's Proportionate Share of the Net Pension Liability of the MPSERS Plan
Last Two Fiscal Years (Amounts Determined Each Year as of September 30)

	<u>2015</u>	<u>2014</u>
Reporting unit's proportion of net pension liability (%)	<u>0.0799%</u>	<u>0.0797%</u>
Reporting unit's proportionate share of net pension liability	<u>\$ 19,506,725</u>	<u>\$ 17,563,376</u>
Reporting unit's covered-employee payroll	<u>\$ 6,665,510</u>	<u>\$ 7,306,122</u>
Reporting unit's proportionate share of net pension liability as a percentage of its covered-employee payroll	<u>292.65%</u>	<u>240.39%</u>
Plan fiduciary net position as a percentage of total pension liability	<u>63.17%</u>	<u>66.20%</u>

Hillsdale Community Schools
Notes to Required Supplementary Information Pension Schedules
Year Ended June 30, 2016

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.

Hillsdale Community Schools

Single Audit Report

Year Ended June 30, 2016

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WILLIS & JURASEK

CPAs AND CONSULTANTS

**Independent Auditors' Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

Board of Education
Hillsdale Community Schools
Hillsdale, 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 *Governmental 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 Hillsdale Community Schools as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Hillsdale Community Schools' basic financial statements, and have issued our report thereon dated September 15, 2016.

Internal Control Over Financial Reporting

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

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

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

Board of Education
Hillsdale Community Schools
Hillsdale, Michigan

Compliance and Other Matters

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

Purpose of this Report

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

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.

September 15, 2016



WILLIS & JURASEK
CPAS AND CONSULTANTS

**Independent Auditors' Report on Compliance for Each Major Program
and on Internal Control Over Compliance Required by the Uniform Guidance**

Board of Education
Hillsdale Community Schools
Hillsdale, Michigan

Report on Compliance for Each Major Federal Program

We have audited Hillsdale Community Schools' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Hillsdale Community Schools' major federal programs for the year ended June 30, 2016. Hillsdale Community Schools' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Hillsdale Community Schools' 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 the 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 Hillsdale Community Schools' 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 Hillsdale Community Schools' compliance.

Opinion on Each Major Federal Program

In our opinion, Hillsdale 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.

Report on Internal Control Over Compliance

Management of Hillsdale 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 Hillsdale Community Schools' 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 Hillsdale Community Schools' 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 a 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a deficiency in internal control over compliance, as described in the accompanying schedule as item 2016-001 that we consider to be a significant deficiency.

Hillsdale Community Schools' response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Hillsdale Community Schools' response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hillsdale Community Schools as of and for the year ended June 30, 2016 and the related notes to the financial statements, which collectively comprise Hillsdale Community Schools' basic financial statements. We have issued our report thereon dated September 15, 2016, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying 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 expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Board of Education
Hillsdale Community Schools

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.

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.

September 15, 2016

Hillsdale Community Schools
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2016

<u>Federal Grantor/Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Grantor's Number</u>	<u>Award/Grant Entitlement Program Amount</u>	<u>Accrued (Deferred) Revenue 7/1/2015</u>	<u>Prior Years Expenditures (Memorandum Only)</u>	<u>Current Year Receipts</u>	<u>Current Year Expenditures</u>	<u>Accrued (Deferred) Revenue 6/30/2016</u>
<u>U.S. Department of Agriculture</u>								
Child Nutrition Cluster:								
Passed through MI Department of Education:								
Non-cash Assistance (Commodities):								
National School Lunch Program - Regular	10.555		\$ 47,069	\$ -	\$ -	\$ 47,069	\$ 47,069	\$ -
Cash Assistance:								
National School Lunch Program	10.555	151960	315,102	-	315,102	33,038	33,038	-
		161960	325,826	-	-	325,826	325,826	-
		161980	1,424	-	-	1,424	1,424	-
			<u>642,352</u>	<u>-</u>	<u>315,102</u>	<u>360,288</u>	<u>360,288</u>	<u>-</u>
School Breakfast Program	10.553	151970	115,415	-	104,588	10,827	10,827	-
		161970	113,158	-	-	113,158	113,158	-
			<u>228,573</u>	<u>-</u>	<u>104,588</u>	<u>123,985</u>	<u>123,985</u>	<u>-</u>
Summer Food Service Program	10.559	150900	1,990	-	-	1,990	1,990	-
		151900	208	-	-	208	208	-
			<u>2,198</u>	<u>-</u>	<u>-</u>	<u>2,198</u>	<u>2,198</u>	<u>-</u>
Total Cash Assistance			<u>873,123</u>	<u>-</u>	<u>419,690</u>	<u>486,471</u>	<u>486,471</u>	<u>-</u>
Total Child Nutrition Cluster			<u>920,192</u>	<u>-</u>	<u>419,690</u>	<u>533,540</u>	<u>533,540</u>	<u>-</u>
Child and Adult Care Food Program	10.558	161920	16,772	-	-	16,772	16,772	-
		162010	1,116	-	-	1,116	1,116	-
			<u>17,888</u>	<u>-</u>	<u>-</u>	<u>17,888</u>	<u>17,888</u>	<u>-</u>
Total United States Department of Agriculture			<u>938,080</u>	<u>-</u>	<u>419,690</u>	<u>551,428</u>	<u>551,428</u>	<u>-</u>
<u>U.S. Department of Education:</u>								
Passed through MI Department of Education:								
Title I Part A								
	84.010	151530-1415	556,772	173,779	367,137	204,888	31,109	-
		161530-1516	624,390	-	-	220,727	431,431	210,704
			<u>1,181,162</u>	<u>173,779</u>	<u>367,137</u>	<u>425,615</u>	<u>462,540</u>	<u>210,704</u>
Title IIA	84.367	150520-1415	164,425	21,112	68,512	36,015	14,903	-
		160520-1516	184,092	-	-	39,577	48,714	9,137
			<u>348,517</u>	<u>21,112</u>	<u>68,512</u>	<u>75,592</u>	<u>63,617</u>	<u>9,137</u>
Title VIB	84.358	150660-1415	28,977	23,879	23,879	23,879	-	-
		160660-1516	31,024	-	-	5,081	9,616	4,535
			<u>60,001</u>	<u>23,879</u>	<u>23,879</u>	<u>28,960</u>	<u>9,616</u>	<u>4,535</u>
Total passed through MI Department of Education			<u>1,589,680</u>	<u>218,770</u>	<u>459,528</u>	<u>530,167</u>	<u>535,773</u>	<u>224,376</u>
Total United States Department of Education			<u>1,589,680</u>	<u>218,770</u>	<u>459,528</u>	<u>530,167</u>	<u>535,773</u>	<u>224,376</u>
			<u>\$ 2,527,760</u>	<u>\$ 218,770</u>	<u>\$ 879,218</u>	<u>\$ 1,081,595</u>	<u>\$ 1,087,201</u>	<u>\$ 224,376</u>

Hillsdale Community Schools
Schedule of Reconciliation of Revenues with
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2016

	<u>Amount</u>
Revenue from Federal sources - per financial statements (includes all funds)	\$ <u>1,087,201</u>
Federal expenditures per the Schedule of Expenditures of Federal Awards	\$ <u>1,087,201</u>

Hillsdale Community Schools
Notes to Schedule of Expenditures of Federal Awards

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of Hillsdale Community Schools' (the "District") under programs of the federal government for the year ended June 30, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Hillsdale Community Schools, it is not intended to and does not present the financial position or changes in net position of the District.

Note 2 – Summary of Significant Explanations of Schedule

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

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

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

Expenditures are in agreement with amounts reported in the financial statements and the financial reports. The amounts on the Grant Auditor Report reconcile with this schedule with any differences being timing issues of when cash was received. The amounts reported on the Recipient Entitlement Balance (PAL) Report agree with this schedule for USDA donated food commodities and the expenditures include any spoilage or pilferage.

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

Note 3 – Subrecipients

No federal awards were passed through the District to any subrecipients during the year.

Hillsdale Community Schools
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2016

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued:	Unmodified
Internal control over financial reporting:	
Material weakness identified	_____ yes <u> X </u> no
Significant deficiencies identified that are not considered to be material weaknesses	_____ yes <u> X </u> none reported
Noncompliance material to financial statements noted	_____ yes <u> X </u> no

Federal Awards

Internal control over major programs:	
Material weakness identified	_____ yes <u> X </u> no
Significant deficiencies identified that are not considered to be material weaknesses	<u> X </u> yes _____ none reported

Type of auditors’ report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)	_____ yes <u> X </u> no

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
10.555/10.553/10.559	Child Nutrition Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	<u> \$ 750,000 </u>
Auditee qualified as low-risk	_____ yes <u> X </u> no

Section II – Financial Statement Audit Findings

None

Section III – Federal Program Audit Findings

2016-001 – Eligibility

Criteria or Specific Requirement: The District is required to determine annually a child’s eligibility for free or reduced meals based on the child’s household income and household size or based on the child’s household receiving benefits under various other programs per 7 CFR section 225.15(f).

Condition: Two students out of a sample of one hundred and thirty eight students selected for testing were incorrectly classified based on income.

Hillsdale Community Schools
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2016

Section III – Federal Program Audit Findings (Continued)

2016-001 – Eligibility

Cause and Effect: The District did not correctly process the applications for these students creating incorrect reporting of meals served for the free and reduced categories and thus, incorrect reimbursement requests.

Recommendation: The District should implement procedures to review applications timely and verify that students are properly classified between free, reduced, and full-pay eligibility.

Views of Responsible Officials: After review of the finding, we have discussed the current procedures with our food service director and have implemented a review process to ensure applications are timely and accurately processed.

Hillsdale Community Schools
Comments on Resolution of Findings from June 30, 2015
Single Audit Report

Finding:

2015-001 Internal Control over Timekeeping Requirements

Condition: During the course of our testing, we noted a control deficiency over the completion of personnel activity reports and calculation of wages to be allocated to the Title I federal program based on those reports.

Cause: While PARs were maintained, they only included time to be charged to the federal grants and not all time as required by the federal standards. In addition to this, there is no review process in place to ensure accurate calculation of wage and benefit amounts being charged to the federal program.

Effect: The lack of control over this area could lead to incorrect wage and benefit amounts being charged to the federal program. We, however, did not note material errors or questioned costs in this area.

Recommendation: The recording of time on PARs should be updated to include all time for which an employee is paid, both hours for federally-funded programs and general programs. In addition to this, we recommend a review of the controls over the calculation and posting of time to the federal program to ensure accuracy in the calculation and compliance with allowable costs.

Views of Responsible Officials and Corrective Action Plan: The internal controls have been reviewed and updated. PAR reporting procedures will be reviewed with the administrators and staff as follows: all PAR reports are expected to be completed thoroughly by the employees documenting all time worked and completing the calculation of time spent in federal grants. The administrator will review and approve the report, confirming that the hours documented are accurate and the calculations are correct. PAR reports will be submitted to the business office on a monthly basis. Upon review/verification by the business office, the payroll expenditures will be allocated to the grant.

Status: The District has implemented their corrective action plan and this finding has been corrected.



WILLIS & JURASEK

CPAS AND CONSULTANTS

September 15, 2016

Board of Education
Hillsdale Community Schools
305 Norwood
Hillsdale, MI 49242

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hillsdale Community Schools for the year ended June 30, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our planning letter. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Hillsdale Community Schools are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the 2015-2016 year. We noted no transactions entered into by Hillsdale Community Schools during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the District's financial statements were:

Management's estimate of the depreciation is based on estimated lives for each asset. We evaluated the key factors and assumptions used to develop the depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

The District's financial statements contain estimates for net pension liability and related deferred inflows and deferred outflows of resources. This information has been provided by ORS to all school districts participating in the MPSERS pension system. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 15, 2016.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Hillsdale Community Schools' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the required supplementary information as listed in the audit report table of contents, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

This information is intended solely for the information and use of Board of Education and management of Hillsdale Community Schools and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Willis & Jurasek, P.C.

Hillsdale Community Schools

www.hillsdaleschools.org

30 S. Norwood Ave.

Hillsdale, MI 49242

(517) 437-4401 Fax (517) 439-4194

Corrective Action Plan

Fiscal Year 2015-2016

Contact Person: Business Manager (517) 437-4401

Finding 2016-001

After review of the finding, we have discussed the current procedures with our food service director and have implemented a review process to ensure applications are timely and accurately processed.

Sincerely,



Patricia Knapp

Business Manager