

HOUGHTON LAKE COMMUNITY SCHOOLS

REPORT ON FINANCIAL STATEMENTS
(with required supplementary
and additional supplementary information)

YEAR ENDED JUNE 30, 2016

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Houghton Lake Community Schools

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issue 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Houghton Lake Community Schools as of June 30, 2016, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary 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, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Houghton Lake Community Schools' basic financial statements. The additional supplementary information, as identified in the table of contents, including the schedule of expenditures of federal awards as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The additional supplementary 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 additional supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the additional supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2016 on our consideration of Houghton Lake 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 Houghton Lake Community Schools' internal control over financial reporting and compliance.

Maney Costeiran PC

September 20, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Houghton Lake Community Schools (HLCS) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2016. Please read it in conjunction with the District's financial statements, which immediately follow this section.

Generally accepted accounting principles (GAAP) require reporting two types of financial statements: district wide financial statements and fund financial statements.

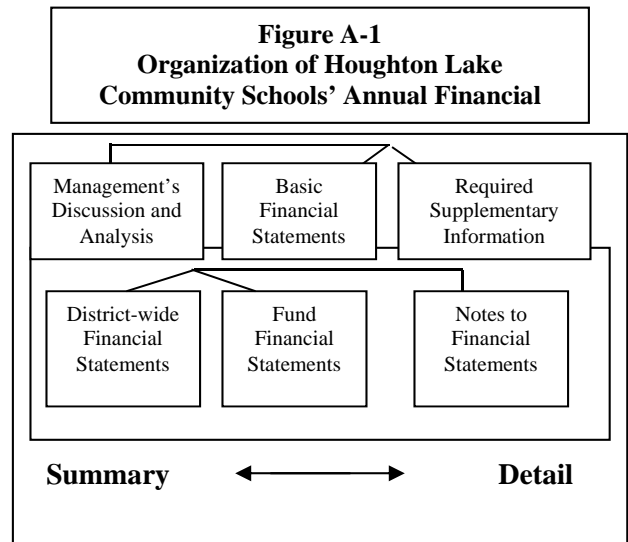
FINANCIAL OVERVIEW

- The District's general fund financial situation improved from the 2015 fiscal year to 2016.
- For the 2015-16 school year, general fund balance was increased by \$23,918.
- During the 2015-16 school year compared to 2014-15, general fund revenues decreased by \$130,081 (.90 percent), while expenditures decreased by \$97,591 (.68 percent).
- Student enrollment decreased by 77 students to 1,375 in the 2015 - 2016 school year. This represents a decrease of approximately 5 percent from the 2015 figure.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts - management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are district-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide notes to financial statements.
- The governmental funds statements tell how basic services like instruction and support services were financed in the short-term as well as what remains for future spending.
- Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.



The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District’s budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Figure A-2 Major Features of District-Wide and Fund Financial Statements			
	<u>District-wide statements</u>	<u>Fund Financial Statements</u>	
		<u>Governmental Funds</u>	<u>Fiduciary Funds</u>
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	* Statement of net position * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances	* Statement of fiduciary assets and liabilities
Accounting basis and measurement focus	Accrual accounting and economic resource focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resource focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term, Houghton Lake Community School's funds do not currently contain capital assets, although they can
Type of inflow-outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when good or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis highlights the structure and contents of each of the statements.

DISTRICT-WIDE STATEMENTS

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District's net position and how they have changed. Net position - the difference between the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources - are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

District-wide financial statements:

- Governmental activities - Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property taxes and state formula aid finance most of these activities.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying debt, and its capital projects fund) or to show that it is properly using certain revenues (like school lunch).

The District has two kinds of funds.

- Governmental funds - Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out, and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information with the governmental funds statements that explain the relationship (or differences) between them.
- Fiduciary funds - The District is the trustee, or fiduciary, for assets that belong to others, such as the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net position - The District's combined net position was less on June 30, 2016 than the year before, decreasing from (\$12,625,534) to (\$12,794,899).

Table A-3 Houghton Lake Community Schools Net Position		
	2016	2015
Current and other assets	\$ 6,205,765	\$ 5,962,983
Capital assets and other	7,735,459	8,040,344
Total assets	13,941,224	14,003,327
Deferred outflows of resources	2,443,298	2,078,014
Noncurrent liabilities	6,355,201	6,747,163
Other liabilities	2,231,511	2,155,975
Net pension liability	19,979,985	17,832,362
Total liabilities	28,566,697	26,735,500
Deferred inflows of resources	612,724	1,971,375
Net position:		
Net investment in capital assets	1,368,011	1,335,192
Restricted for debt service	849,631	687,402
Restricted for food service	194,886	257,888
Unrestricted	(15,207,427)	(14,906,016)
Total net position	\$ (12,794,899)	\$ (12,625,534)

Table A-4
Changes in Houghton Lake Community Schools' Net Position

	2016	2015
Revenues:		
Program revenues:		
Charges for services	\$ 107,286	\$ 126,217
Federal and state categorical grants	5,228,240	4,678,709
General revenues:		
Property taxes	7,903,457	8,087,852
Investment	22,236	25,260
State aid - unrestricted	1,939,771	2,976,732
Other	126,219	123,149
Total revenues	<u>15,327,209</u>	<u>16,017,919</u>
Expenses:		
Instruction	8,518,112	8,573,810
Support services	5,120,587	5,424,117
Community services	516,885	237,900
Food services	809,351	741,417
Interest on long-term debt	252,850	263,987
Unallocated depreciation	278,789	269,091
Total expenses	<u>15,496,574</u>	<u>15,510,322</u>
Change in net position	<u>\$ (169,365)</u>	<u>\$ 507,597</u>

District Governmental Activities

The District's financial condition has come about through a number of areas.

- Proposal A which established the student foundation grant concept, and has increased that amount from \$5,024 per student in 1995 to \$7,391 per student in 2016.
- The District continues to work earnestly toward aligning expenditures with declining revenue each year. The District looks to manage staffing levels in accordance with student count, and seeks to save money in non-instructional areas whenever possible.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

For the District as a whole its *combined* fund balance, is \$4,432,100 compared to \$4,247,808 in 2015. The total fund balance increased by \$184,292 for the year primarily due to increase in other non-major governmental funds of \$88,101, QZAB debt service fund of \$72,273 and the general fund of \$23,918.

General Fund and Budget Highlights

During the 2015-16 fiscal year the original district budget was amended two times to reflect changes which affected the District. The final budget was amended to show a current year balance of \$2,979,508 while the actual fund balance for the year was \$3,207,315. The better-than-anticipated final result was due largely to budgeted funds going unspent at the building and departmental levels.

The District has adopted a minimum fund balance for the general fund of 12 percent of total expenditures. The 12 percent minimum level of fund balance will allow the District to operate without the need for cash flow borrowing, and will also allow the District to absorb possible cuts to funding from the State of Michigan without adversely affecting programs.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The District's capital assets are as follows:

Table A-5 Houghton Lake Community Schools' Capital Assets				
	2016			2015
	Cost	Accumulated depreciation	Net book value	Net book value
Construction in progress	\$ -	\$ -	\$ -	\$ 45,000
Buildings and improvements	16,353,517	10,434,934	5,918,583	6,339,176
Machinery and equipment	2,274,717	1,011,279	1,263,438	1,129,396
Transportation equipment	1,504,695	951,257	553,438	526,772
Total	<u>\$ 20,132,929</u>	<u>\$ 12,397,470</u>	<u>\$ 7,735,459</u>	<u>\$ 8,040,344</u>

The original cost of land is not determinable and is recorded at zero.

LONG-TERM DEBT

At year end the District had \$6,774,201 long-term debt outstanding as shown in Table A-6. More detailed information is available in Note 6 to the financial statements.

Table A-6 Houghton Lake Community Schools Outstanding Long-Term Debt		
	2016	2015
QZAB bonds	\$ 1,000,000	\$ 1,000,000
2008 General Obligation Bonds	5,367,448	6,022,856
Compensated absences and terminated benefits	406,753	488,966
	<u>\$ 6,774,201</u>	<u>\$ 7,511,822</u>

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The State of Michigan per pupil foundation allowance was increased during the 2016-2017 fiscal year to raise the minimum from \$7,391 to \$7,511. This equates to approximately 1.7 percent increase to general fund revenues from state sources.
- The District's financial results for the 2015-2016 year were highly dependent upon federal funding, which was a one-time revenue used basically for wages and benefits for instructional staff.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Business Office, Houghton Lake Community Schools, 6001 W. Houghton Lake Drive; Houghton Lake, MI 48629.

BASIC FINANCIAL STATEMENTS

**HOUGHTON LAKE COMMUNITY SCHOOLS
STATEMENT OF NET POSITION
JUNE 30, 2016**

	<u>Governmental activities</u>
ASSETS:	
Cash and cash equivalents	\$ 1,658,970
Investments	2,126,173
Receivables:	
Accounts receivable	16,356
Intergovernmental	1,446,729
Inventories	156,592
Prepays	99,384
Investments - restricted for debt service set-aside	701,561
Capital assets, net of accumulated depreciation	<u>7,735,459</u>
TOTAL ASSETS	<u>13,941,224</u>
DEFERRED OUTFLOWS OF RESOURCES:	
Related to pensions	<u>2,443,298</u>
LIABILITIES:	
Accounts payable	292,537
Accrued salaries and related items	928,606
Accrued retirement	246,625
Accrued interest	38,846
Unearned revenue	89,088
Intergovernmental payable	135,705
Due to fiduciary fund	81,104
Noncurrent liabilities:	
Due within one year	419,000
Due in more than one year	6,355,201
Net pension liability	<u>19,979,985</u>
TOTAL LIABILITIES	<u>28,566,697</u>
DEFERRED INFLOWS OF RESOURCES:	
Related to pensions	66,180
Related to state aid funding for pensions	<u>546,544</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>612,724</u>
NET POSITION:	
Net investment in capital assets	1,368,011
Restricted for debt service	849,631
Restricted for food service	194,886
Unrestricted	<u>(15,207,427)</u>
TOTAL NET POSITION	<u><u>\$ (12,794,899)</u></u>

**HOUGHTON LAKE COMMUNITY SCHOOLS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016**

<u>Functions/programs</u>	<u>Expenses</u>	<u>Program revenues</u>		<u>Governmental activities</u>
		<u>Charges for services</u>	<u>Operating grants</u>	<u>Net (expense) revenue and changes in net position</u>
Governmental activities:				
Instruction	\$ 8,518,112	\$ -	\$ 3,433,826	\$ (5,084,286)
Support services	5,120,587	31,518	858,456	(4,230,613)
Community services	516,885	-	166,904	(349,981)
Food services	809,351	75,768	769,054	35,471
Interest on long-term debt	252,850	-	-	(252,850)
Unallocated depreciation	278,789	-	-	(278,789)
Total governmental activities	<u>\$ 15,496,574</u>	<u>\$ 107,286</u>	<u>\$ 5,228,240</u>	<u>(10,161,048)</u>
General revenues:				
Property taxes, levied for general purposes				7,237,551
Property taxes, levied for debt service				665,906
Investment earnings				22,236
State sources				1,939,771
Intermediate sources				47,593
Other				78,626
Total general revenues				<u>9,991,683</u>
CHANGE IN NET POSITION				(169,365)
NET POSITION, beginning of year				<u>(12,625,534)</u>
NET POSITION, end of year				<u><u>\$ (12,794,899)</u></u>

**HOUGHTON LAKE COMMUNITY SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016**

	<u>General Fund</u>	<u>QZAB Debt Service Fund</u>	<u>Total nonmajor funds</u>	<u>Total governmental funds</u>
ASSETS				
ASSETS:				
Cash and cash equivalents	\$ 1,297,907	\$ -	\$ 361,063	\$ 1,658,970
Investments	2,126,173	-	-	2,126,173
Receivables:				
Accounts receivable	16,356	-	-	16,356
Intergovernmental receivables	1,422,679	-	24,050	1,446,729
Due from other funds	36,993	-	156,779	193,772
Inventories	149,124	-	7,468	156,592
Prepays	27,384	-	72,000	99,384
Investments - restricted for debt service set-aside	-	701,561	-	701,561
TOTAL ASSETS	<u>\$ 5,076,616</u>	<u>\$ 701,561</u>	<u>\$ 621,360</u>	<u>\$ 6,399,537</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ 231,137	\$ -	\$ 61,400	\$ 292,537
Accrued salaries and related items	928,606	-	-	928,606
Accrued retirement	246,625	-	-	246,625
Intergovernmental payables	135,705	-	-	135,705
Due to other funds	157,036	-	36,736	193,772
Accounts payable fiduciary funds	81,104	-	-	81,104
Unearned revenue	89,088	-	-	89,088
TOTAL LIABILITIES	<u>1,869,301</u>	<u>-</u>	<u>98,136</u>	<u>1,967,437</u>
FUND BALANCES:				
Nonspendable:				
Inventories	149,124	-	7,468	156,592
Prepays	27,384	-	72,000	99,384

See notes to financial statements.

	<u>General Fund</u>	<u>QZAB Debt Service Fund</u>	<u>Total nonmajor funds</u>	<u>Total governmental funds</u>
FUND BALANCES (Concluded):				
Restricted for:				
Debt service	\$ -	\$ 701,561	\$ 186,916	\$ 888,477
Food service	-	-	256,840	256,840
Committed:				
Transportation improvements	250,829	-	-	250,829
Technology	300,000	-	-	300,000
Capital improvements	100,000	-	-	100,000
Forestry contract classroom projects	26,584	-	-	26,584
Assigned:				
Severance pay	406,753	-	-	406,753
Unassigned reported in:				
General fund	1,946,641	-	-	1,946,641
TOTAL FUND BALANCES	<u>3,207,315</u>	<u>701,561</u>	<u>523,224</u>	<u>4,432,100</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 5,076,616</u>	<u>\$ 701,561</u>	<u>\$ 621,360</u>	<u>\$ 6,399,537</u>
Total governmental fund balances				\$ 4,432,100
Amounts reported for governmental activities in the statement of net position are different because:				
Deferred outflows of resources - related to pensions			\$ 2,443,298	
Deferred inflows of resources - related to pensions			(66,180)	
Deferred inflows of resources - state aid funding for pensions			<u>(546,544)</u>	1,830,574
Capital assets used in governmental activities are not financial resources and are not reported in the funds:				
The cost of the capital assets is			\$ 20,132,929	
Accumulated depreciation is			<u>(12,397,470)</u>	7,735,459
Long-term liabilities are not due and payable in the current period and are not reported in the funds:				
Accrued compensated absences and severance benefits				(406,753)
Bonds payable and unamortized premium				(6,367,448)
Accrued interest is not included as a liability in governmental funds, it is recorded when paid				(38,846)
Net pension liability				<u>(19,979,985)</u>
Net position of governmental activities				<u>\$ (12,794,899)</u>

See notes to financial statements.

HOUGHTON LAKE COMMUNITY SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2016

	<u>General Fund</u>	<u>QZAB Debt Service Fund</u>	<u>Total nonmajor funds</u>	<u>Total governmental funds</u>
REVENUES:				
Local sources:				
Property taxes	\$ 7,237,551	\$ -	\$ 665,906	\$ 7,903,457
Investment earnings	4,646	17,590	-	22,236
Food sales	-	-	75,768	75,768
Other	241,103	-	-	241,103
Total local sources	<u>7,483,300</u>	<u>17,590</u>	<u>741,674</u>	<u>8,242,564</u>
State sources	5,053,206	-	26,398	5,079,604
Federal sources	1,758,326	-	744,627	2,502,953
Incoming transfers and other	48,632	-	-	48,632
Total revenues	<u>14,343,464</u>	<u>17,590</u>	<u>1,512,699</u>	<u>15,873,753</u>
EXPENDITURES:				
Current:				
Instruction	8,273,922	-	-	8,273,922
Supporting services	5,471,318	-	-	5,471,318
Food service activities	-	-	809,351	809,351
Community service activities	509,622	-	-	509,622
Capital outlay	-	-	35,372	35,372

See notes to financial statements.

	<u>General Fund</u>	<u>QZAB Debt Service Fund</u>	<u>Total nonmajor funds</u>	<u>Total governmental funds</u>
EXPENDITURES (Concluded):				
Debt service:				
Principal repayment	\$ -	\$ -	\$ 335,000	\$ 335,000
Interest	-	10,001	244,875	254,876
Total expenditures	<u>14,254,862</u>	<u>10,001</u>	<u>1,424,598</u>	<u>15,689,461</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>88,602</u>	<u>7,589</u>	<u>88,101</u>	<u>184,292</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	-	64,684	-	64,684
Transfers out	<u>(64,684)</u>	<u>-</u>	<u>-</u>	<u>(64,684)</u>
Total other financing sources (uses)	<u>(64,684)</u>	<u>64,684</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	23,918	72,273	88,101	184,292
FUND BALANCES:				
Beginning of year	<u>3,183,397</u>	<u>629,288</u>	<u>435,123</u>	<u>4,247,808</u>
End of year	<u>\$ 3,207,315</u>	<u>\$ 701,561</u>	<u>\$ 523,224</u>	<u>\$ 4,432,100</u>

See notes to financial statements.

**HOUGHTON LAKE 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	\$ 184,292
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	(658,897)
Capital outlay	354,012
Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:	
Accrued interest payable, beginning of the year	40,800
Accrued interest payable, end of the year	(38,846)
The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The effect of these differences in the treatment of long-term debt and related items are as follows:	
Payments on debt	335,000
Amortization of bond premium	2,704
Compensated absences are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds:	
Accrued compensated absences and severance benefits, beginning of the year	442,011
Accrued compensated absences and severance benefits, end of the year	(406,753)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:	
Pension related items	122,856
Restricted revenue reported in the governmental funds that is deferred to offset the deferred outflows related to section 147c pension contributions subsequent to the measurement period.	
State aid funding for pension	(546,544)
Change in net position of governmental activities	\$ (169,365)

**HOUGHTON LAKE COMMUNITY SCHOOLS
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2016**

	<u>Agency fund</u>
ASSETS:	
Cash	\$ 103,013
Receivable from general fund of the district	<u>81,104</u>
TOTAL ASSETS	<u><u>\$ 184,117</u></u>
 LIABILITIES:	
Due to student and other groups	<u><u>\$ 184,117</u></u>

**HOUGHTON LAKE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. All fiduciary activities are reported only in the fund financial statements. *Governmental activities* normally are supported by taxes and intergovernmental revenues.

B. Reporting Entity

The Houghton Lake Community Schools (the “District”) is governed by the Houghton Lake Community Schools Board of Education (the “Board”), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District’s reporting entity does not contain any component units as defined in Governmental Accounting Standards Board (GASB) Statements.

C. Basis of Presentation - Government-wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from the governmental funds. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

D. Basis of Presentation - Fund Financial Statements

The fund financial statements provide information about the District’s funds, including its fiduciary funds. Separate statements for each fund category - governmental and fiduciary - are presented. The emphasis of fund financial statements is on major governmental funds. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

**HOUGHTON LAKE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Presentation - Fund Financial Statements (Concluded)

The District reports the following major governmental funds:

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

The QZAB *debt service fund* accounts for the resources accumulated and payments for principal and interest on the QZAB bond obligation debt.

Other Non-major Funds

The *special revenue fund* accounts for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its food service in the special revenue fund.

The *debt service fund* accounts for the resources accumulated and payments for principal and interest on long-term general obligation debt of governmental funds.

Fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

During the course of operations the District has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

**HOUGHTON LAKE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Measurement Focus and Basis of Accounting (Continued)

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 expenses. 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.

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

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are generally collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, state and federal aid, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end).

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 current year ended, the foundation allowance was based on pupil membership counts.

**HOUGHTON LAKE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Measurement Focus and Basis of Accounting (Concluded)

The state portion of the Foundation is provided primarily by a state education property tax millage of 6 mills on Principal Residence Exemption (PRE) property and an allocated portion of state sales and other taxes. The local portion of the Foundation is funded primarily by Non-PRE property taxes which may be levied at a rate of up to 18 mills as well as 6 mills for Commercial Personal Property Tax. The state revenue is recognized during the foundation period and is funded through payments from October to August. Thus, the unpaid portion at June 30 is reported as an intergovernmental receivable.

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 governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received and accrued, which are not expended by the close of the fiscal year are recorded as unearned revenue.

All other revenue items are generally considered to be measurable and available only when cash is received by the District.

F. Budgetary Information

Budgetary basis of accounting:

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund and special revenue fund. Other funds do not have appropriated budgets.

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances are commitments related to unperformed (executor) contracts for goods or services (i.e. purchase orders, contracts, and commitments). The District does not utilize encumbrance accounting.

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 supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.

**HOUGHTON LAKE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Budgetary Information (Concluded)

3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). 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, in the general fund are noted in the required supplementary information section.
4. Transfers may be made for budgeted amounts between major expenditure 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. The budget was amended during the year with supplemental appropriations, the last one approved prior to year-end June 30, 2016. The District does not consider these amendments to be significant.

G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. Cash and cash equivalents

The District's cash and cash equivalents are considered to be demand deposits and certificate of deposit.

2. Investments

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. 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.

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; 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. District or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

**HOUGHTON LAKE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Continued)

3. Inventories and prepaid items

Inventories are valued at cost using the first-in/first-out (FIFO) method and consist of expendable supplies. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

4. Capital assets

Capital assets, which include property, plant, equipment, and transportation vehicles, are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Group purchases are evaluated on a case by case basis. Donated capital assets are recorded at their estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Land is not depreciated. The other property, plant, and equipment of the District are depreciated using the straight line method over the following estimated useful lives:

Buildings and improvements	50
Machinery and equipment	5 - 15
Transportation equipment	8
Site improvements	20

5. Defined benefit 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 reported by MPERS. 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.

**HOUGHTON LAKE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Continued)

6. Deferred outflows/inflows of resources

Deferred outflows

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District only has one item that qualifies for reporting in this category. It is pension related items reported in the government-wide statement of net position. A deferred outflow is recognized for pension related items. The amounts are expensed in the plan years in which they apply.

Deferred inflows

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has two items that qualify for reporting in this category. The first is the future resources yet to be recognized in relation to the pension actuarial calculation. These future resources arise from differences in the estimates used by the actuary to calculate the pension liability and the actual results. The amounts are amortized over a period determined by the actuary. The second is restricted section 147c state aid deferred to offset deferred outflows related to section 147c pension contributions subsequent to the measurement period.

7. Net position flow assumption

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

**HOUGHTON LAKE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Continued)

8. Fund balance flow assumptions

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

9. Fund balance policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The District itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision-making authority. The board of education is the highest level of decision-making authority for the District that can, by adoption of a board action prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the board action remains in place until a similar action is taken (the adoption of another board action) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. The board of education has by resolution authorized the superintendent and finance director to assign fund balance. The board of education may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

**HOUGHTON LAKE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Concluded)

9. Fund balance policies (concluded)

In the general fund, the District strives to maintain an unassigned fund balance to be used for unanticipated emergencies of approximately 12% of the actual GAAP basis expenditures and other financing uses.

H. Revenues and Expenditures/Expenses

1. Program revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, unrestricted state aid, interest, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. 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 July 1 and 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 dates are September 14 and 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:

Fund	Mills
General Fund:	
Non-Principal Residence Exemption (PRE)	18.00
Commercial Personal Property	6.00
Debt Service Fund:	
PRE, Non-PRE, Commercial Personal Property	0.93

**HOUGHTON LAKE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

H. Revenues and Expenditures/Expenses (Concluded)

3. Compensated absences

The District's policy permits employees to accumulate earned but unused vacation and sick leave benefits, which are eligible for payment upon separation from service. The liability for such leave is reported as incurred in the government-wide financial statements. A liability for those amounts is recorded in the governmental funds only if the liability has matured as a result of employee resignations or retirements. The liability for compensated absences includes salary and related benefits, where applicable.

4. Long-term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method which approximates the effective interest method over the term of the related debt. Bond issuance costs are reported as expenditures in the year in which they are incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**HOUGHTON LAKE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - DEPOSITS AND INVESTMENTS - CREDIT RISK

As of June 30, 2016, the District had the following investments.

<u>Investment type</u>	<u>Fair value</u>	<u>Weighted average maturity (years)</u>	<u>Standard & Poor's rating</u>	<u>%</u>
U.S. Government securities	\$ 701,561	0.4671	AA+	65.23%
MILAF External Investment pool - MIMAX	373,931	0.0027	AAAm	34.77%
Total fair value	<u>1,075,492</u>			<u>100.00%</u>
Portfolio weighted average maturity		<u>0.3056</u>		
1 day maturity equals 0.0027, one year equals 1.00				
Repurchase agreement:				
Trade Date - 4/13/2016				
Maturity Date - 8/11/16				
Interest Rate - .25%	876,289			
Repurchase agreement:				
Trade Date - 4/13/2016				
Maturity Date - 9/14/2016				
Interest Rate - .20%	875,953			
Total investments	<u>\$ 2,827,734</u>			

The District voluntarily invests certain excess funds in external pooled investment funds which included money market funds. One of the pooled investment funds utilized by the District is the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external pooled investment fund of “qualified” investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports as of June 30, 2016, the fair value of the District’s investments is the same as the value of the pool shares.

MILAF funds are considered external investment pools as defined by the GASB and as such are recorded at amortized cost which approximate fair value. The MILAF (MAX Class) fund requires notification of redemptions prior to 14 days to avoid penalties. These funds are not subject to the fair value disclosures.

Interest rate risk. In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District’s cash requirements.

**HOUGHTON LAKE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - DEPOSITS AND INVESTMENTS - CREDIT RISK (Continued)

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

Concentration of credit risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2016, \$1,303,087 of the District's bank balance of \$1,803,087 was exposed to custodial credit risk because it was uninsured and uncollateralized. The carrying amount is \$1,761,983. The fiduciary fund balances are included in the above balances.

Custodial credit risk - investments. For an investment, this 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. All repurchase securities are held by the investment's counterparty (Chemical Bank), not in the name of the District.

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

Fair value measurement. The District is required to disclose amounts within a framework established for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1: Quoted prices in active markets for identical securities.

Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include prices for similar securities, interest rates, prepayment speeds, credit risk and others.

Level 3: Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant, unobservable inputs may be used. Unobservable inputs reflect the District's own assumptions about the factors market participants would use in pricing an investment and would be based on the best information available.

**HOUGHTON LAKE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - DEPOSITS AND INVESTMENTS - CREDIT RISK (Concluded)

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The District's U.S. Government securities and repurchase agreements are considered Level 2.

Foreign currency risk. The District is not authorized to invest in investments which have this type of risk.

At June 30, 2016, the carrying amounts are as follows:

Deposits - including fiduciary funds of \$103,013	\$ 1,761,983
Investments	<u>2,827,734</u>
	<u>\$ 4,589,717</u>

The above amounts are reported in the financial statements as follows:

Cash - agency fund	\$ 103,013
Government wide:	
Cash and cash equivalents	1,658,970
Investments	2,126,173
Investments - restricted debt service set-aside	<u>701,561</u>
	<u>\$ 4,589,717</u>

NOTE 3 - INTERGOVERNMENTAL RECEIVABLES

Intergovernmental receivables at June 30, 2016 consist of the following:

Intergovernmental units:	
State aid	\$ 849,546
Federal revenue	458,610
Other	<u>138,573</u>
	<u>\$ 1,446,729</u>

**HOUGHTON LAKE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 4 - CAPITAL ASSETS

A summary of changes in the District's capital assets follows:

	Balance July 1, 2015	Additions	Reclassifications /deletions	Balance June 30, 2016
Governmental activities:				
Capital assets, not being depreciated:				
Construction in progress	\$ 45,000	\$ -	\$ 45,000	\$ -
Capital assets, being depreciated				
Site improvements	1,874,452	-	-	1,874,452
Buildings and improvements	14,479,065	-	-	14,479,065
Machinery and equipment	2,006,730	267,987	-	2,274,717
Transportation equipment	1,481,804	131,025	108,134	1,504,695
Total capital assets, being depreciated	<u>19,842,051</u>	<u>399,012</u>	<u>108,134</u>	<u>20,132,929</u>
Accumulated depreciation:				
Site improvements	533,827	87,149	-	620,976
Buildings and additions	9,480,514	333,444	-	9,813,958
Machinery and equipment	877,334	133,945	-	1,011,279
Transportation equipment	955,032	104,359	108,134	951,257
Total accumulated depreciation	<u>11,846,707</u>	<u>658,897</u>	<u>108,134</u>	<u>12,397,470</u>
Net capital assets being depreciated	<u>7,995,344</u>	<u>(259,885)</u>	<u>-</u>	<u>7,735,459</u>
Net governmental capital assets	<u>\$ 8,040,344</u>	<u>\$ (259,885)</u>	<u>\$ 45,000</u>	<u>\$ 7,735,459</u>

Depreciation for the fiscal year ended June 30, 2016 amounted to \$658,897. The District allocated depreciation expense to the various activities as follows:

Instruction	\$ 349,720
Support services	30,388
Unallocated	<u>278,789</u>
	<u>\$ 658,897</u>

Depreciation of capital assets that serve multiple functions is recorded as unallocated. Original cost of land is not determinable and is recorded at zero.

**HOUGHTON LAKE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 - LONG-TERM DEBT

The District may issue general obligation bonds to provide funds for the acquisition, construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District. Long-term obligations currently outstanding are as follows:

The following is a summary of the long-term debt transactions of the District for the year ended June 30, 2016:

	QZAB bonds	General obligation bonds	Sub-total bonds and notes	Compensated absences	Severance benefits	Total
Balance, July 1, 2015	\$ 1,000,000	\$ 5,705,152	\$ 6,705,152	\$ 374,414	\$ 67,597	\$ 7,147,163
Deletions	-	337,704	337,704	19,055	16,203	372,962
Balance, June 30, 2016	1,000,000	5,367,448	6,367,448	355,359	51,394	6,774,201
Due within one year	-	345,000	345,000	69,000	5,000	419,000
Due in more than one year	\$ 1,000,000	\$ 5,022,448	\$ 6,022,448	\$ 286,359	\$ 46,394	\$ 6,355,201

Long-term obligation debt at June 30, 2016 is comprised of the following:

2005 School Building Bond is due in one installment on June 21, 2021. The bond was issued under the Qualified Zone Academy Bond (QZAB) program. Interest is reduced to 1.00% through a tax credit. A set-aside amount of \$64,684 is required each year. Interest of 2.75% will be earned on the set-aside account.	\$ 1,000,000
2008 general obligation bonds due in annual installments of \$345,000 to \$540,000 through May 1, 2028 with interest from 4.00% to 5.00%.	5,335,000
Plus: premium on bonds	<u>32,448</u>
Total bonded debt	6,367,448
Obligation under contract from compensated absences	355,359
Obligation under contract from severance benefits	<u>51,394</u>
Total long-term debt	<u><u>\$ 6,774,201</u></u>

Interest expense (all funds) for the year ended June 30, 2016 was approximately \$255,000.

**HOUGHTON LAKE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 - LONG-TERM DEBT (Concluded)

The annual requirements to amortize long-term debt outstanding as of June 30, 2016, including interest of \$1,661,908 are as follows:

Year ending June 30,	Principal	Interest	Total
2017	\$ 345,000	\$ 243,074	\$ 588,074
2018	365,000	225,824	590,824
2019	385,000	207,574	592,574
2020	400,000	182,174	582,174
2021	415,000	176,174	591,174
2022 - 2026	3,355,000	554,638	3,909,638
2027 - 2028	1,070,000	72,450	1,142,450
Total	6,335,000	1,661,908	7,996,908
Premium on bonds	32,448	-	32,448
Accumulated compensated absences	355,359	-	355,359
Accumulated severance benefits	51,394	-	51,394
	<u>\$ 6,774,201</u>	<u>\$ 1,661,908</u>	<u>\$ 8,436,109</u>

NOTE 6 - INTERFUND RECEIVABLES AND PAYABLES

Interfund payable and receivable balances at June 30, 2016 are as follows:

Receivable fund		Payable fund	
General fund	\$ 36,993	General fund	\$ 157,036
Food service fund	154,891	Food service fund	36,660
Debt service fund	1,888	Debt service fund	76
	<u>\$ 193,772</u>		<u>\$ 193,772</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in accounting systems, and (3) payments between funds are made.

**HOUGHTON LAKE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS

Plan Description

The Michigan Public School Employees' Retirement System (MPSERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. MPSERS issues a publicly available Comprehensive Annual Financial Report that can be obtained at <http://michigan.gov/mpsers-cafr>.

Benefits Provided

Participants are enrolled in one of multiple plans based on date of hire and certain voluntary elections. A summary of the pension plans offered by MPSERS is as follows:

<u>Plan name</u>	<u>Plan type</u>	<u>Plan status</u>
Basic	Defined Benefit	Closed
Member Investment Plan (MIP)	Defined Benefit	Closed
Pension Plus	Hybrid	Open
Defined Contribution	Defined Contribution	Open

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

Prior to Pension reform of 2010 there were two plans commonly referred to as Basic and the Member Investment Plan (MIP). Basic Plan member's contributions range from 0% - 4%. On January 1, 1987, the Member Investment Plan (MIP) was enacted. MIP members enrolled prior to January 1, 1990, contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990, or later including Pension Plus Plan members, contribute at various graduated permanently fixed contribution rates from 3.0% -7.0%.

Pension Reform 2010

On May 19, 2010, the Governor signed Public Act 75 of 2010 into law. As a result, any member of the Michigan Public School Employees' Retirement System (MPSERS) who became a member of MPSERS after June 30, 2010 is a Pension Plus member. Pension Plus is a hybrid plan that contains a pension component with an employee contribution (graded, up to 6.4% of salary) and a flexible and transferable defined contribution (DC) tax-deferred investment account that earns an employer match of 50% (up to 1% of salary) on employee contributions. Retirement benefits for Pension Plus members are determined by final average compensation and years of service. Disability and survivor benefits are available to Pension Plus members.

**HOUGHTON LAKE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

Pension Reform 2012

On September 4, 2012, the Governor signed Public Act 300 of 2012 into law. The legislation grants all active members who first became a member before July 1, 2010 and who earned service credit in the 12 months ending September 3, 2012, or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their pension. Any changes to a member's pension are effective as of the member's *transition date*, which is defined as the first day of the pay period that begins on or after February 1, 2013. Under the reform, members voluntarily chose to increase, maintain, or stop their contributions to the pension fund. Members who elected under option 1 to increase their level of contribution contribute 4% (Basic Plan) or 7% (MIP).

Regular Retirement (no reduction factor for age)

Eligibility - Age 55 with 30 years credited service; or age 60 with 10 years credited service. For Member Investment Plan (MIP) members, any age with 30 years credited service; or age 60 with 10 years credited service; or age 60 with 5 years of credited service provided member worked through 60th birthday and has credited service in each of the last 5 years. For Pension Plus (PPP) members, age 60 with 10 years of credited service.

Annual Amount - Total credited service as of the Transition Date times 1.5% of final average compensation.

Pension Plus

An amount determined by the member's election of Option 1, 2, 3, or 4 described below.

Option 1 - Credited Service after the Transition Date times 1.5% times FAC.

Option 2 - Credited Service after the Transition Date (until total service reaches 30 years) times 1.5% times FAC, PLUS Credited Service after the Transition Date and over 30 years times 1.25% times FAC.

Option 3 - Credited Service after the Transition Date times 1.25% times FAC.

Option 4 - None (Member will receive benefit through a Defined Contribution plan). As a DC participant they receive a 4% employer contribution to a tax-deferred 401(k) account and can choose to contribute up to the maximum amounts permitted by the IRS.

Employees who first work on or after September 4, 2012 choose between two retirement plans: the Pension Plus plan and a Defined Contribution that provides a 50% employer match up to 3% of salary on employee contributions.

**HOUGHTON LAKE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

Final Average Compensation (FAC) - Average of highest 60 consecutive months (36 months for MIP members). FAC is calculated as of the last day worked unless the member elected option 4, in which case the FAC is calculated at the Transition Date.

Member Contributions

Depending on the plan selected, member contributions range from 0% - 7%. Plan members electing the defined contribution plan are not required to make additional contributions.

Employer Contributions

Reporting units are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of members and retiree Other Post-Employment Benefits (OPEB). Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis.

School districts' contributions are determined based on employee elections. There are several different benefit options included in the plan available to employees based on date of hire. Contribution rates are adjusted annually by the ORS. The range of rates is as follows:

March 10, 2015 - September 30, 2015	18.76% - 23.07%
October 1, 2015 - September 30, 2016	14.56% - 18.95%

The District's pension contributions for the year ended June 30, 2016 were equal to the required contribution total. Pension contributions were approximately \$1,854,000 with \$1,810,000 specifically for the Defined Benefit Plan. These amounts include contributions funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate (69.45% for pension and 30.55% for OPEB).

**HOUGHTON LAKE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

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

Pension Liabilities

At June 30, 2016, the District reported a liability of \$19,979,985 for its proportionate share of the 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 date of September 30, 2014 and rolled-forward using generally accepted actuarial procedures. The District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2015 and 2014, the District's proportion was .08180 and .08096 percent.

<u>MPERS (Plan) Non-university employers:</u>	<u>September 30, 2015</u>	<u>September 30, 2014</u>
Total Pension Liability	\$ 66,312,041,902	\$ 65,160,887,182
Plan Fiduciary Net Position	\$ 41,887,015,147	\$ 43,134,384,072
Net Pension Liability	\$ 24,425,026,755	\$ 22,026,503,110
Proportionate share	0.08180%	0.08096%
Net Pension liability for the District	\$ 19,979,985	\$ 17,832,362

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

For the year ended June 30, 2016, the District recognized pension expense of \$1,140,285. This amount excludes contributions funded from state revenue Section 147c restricted to fund the MPERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate. These amounts have been recorded as a deferred outflow as of June 30, 2016.

**HOUGHTON LAKE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

**NOTE 7 - DEFINED BENEFIT PLAN RETIREMENT AND POST RETIREMENT BENEFITS
(Continued)**

At June 30, 2016, the Reporting Unit reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred outflows of resources	Deferred inflows of resources
Changes of assumptions	\$ 491,950	\$ -
Net difference between projected and actual plan investment earnings	101,982	-
Difference between expected and actual experience	-	66,180
Net difference between employer contributions and proportionate share of contributions	189,175	-
Reporting Unit's contributions subsequent to the measurement date	1,660,191	-
	\$ 2,443,298	\$ 66,180

\$1,660,191, 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, 2016.

Other amounts reported as deferred outflows of resources and (deferred inflows) of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30,	Amount
2016	\$ 106,982
2017	106,982
2018	80,303
2019	422,660

Actuarial Assumptions

Investment rate of return - 8.0% a year, compounded annually net of investment and administrative expenses for the Non-Hybrid groups and 7.0% a year, compounded annually net of investment and administrative expenses for the Hybrid group (Pension Plus plan).

Salary increases - The rate of pay increase used for individual members is 3.5%.

Inflation - 2.5%

**HOUGHTON LAKE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

Mortality assumptions - RP2000 Combined Healthy Life Mortality table, adjusted for mortality improvements to 2020 using projection scale AA for men and women were used.

Experience study - The annual actuarial valuation report of the System used for these statements is dated September 30, 2015. 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 long-term expected rate of return on pension plan investments - The rate was **8% (7%** Pension Plus Plan) net of investment and administrative expenses was determined using a 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.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Investment category</u>	<u>Target allocation</u>	<u>Long-term expected real rate of return*</u>
Domestic Equity Pools	28.00%	5.90%
Alternate Investment Pools	18.00%	9.20%
International Equity	16.00%	7.20%
Fixed Income Pools	10.50%	0.90%
Real Estate and Infrastructure Pools	10.00%	4.30%
Absolute Return Pools	15.50%	6.00%
Short Term Investment Pools	2.00%	0.00%
	<u>100.00%</u>	

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

Discount rate - The discount rate used to measure the total pension liability was **8% (7%** for Pension Plus Plan). The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from school districts will be made at contractually required rates, actuarially determined. 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 active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**HOUGHTON LAKE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

Sensitivity of the net pension liability to changes in the discount rate

The following presents the Reporting Unit's proportionate share of the net pension liability calculated using the discount rate of 8.0 percent (7% for Pension Plus Plan), as well as what the Reporting Unit's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1% Lower (6.0 - 7.0%)	Discount Rate (7.0 - 8.0%)	1% Higher (8.0 - 9.0%)
Reporting unit's proportionate share of the net pension liability	\$ 25,759,322	\$ 19,979,985	\$ 15,107,767

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued Michigan Public School Employees Retirement System 2015 Comprehensive Annual Financial Report.

Payable to the Pension Plan - At year end the School District is current on all required pension plan payments. Amounts accrued at year end for accounting purposes are separately stated in the financial statements as a liability titled accrued retirement. These amounts represent current payments for June paid in July, accruals for summer pay primarily for teachers and the contributions due funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate.

Benefit Provisions - Other Postemployment

Introduction

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

**HOUGHTON LAKE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - RETIREMENT AND POST RETIREMENT BENEFITS (Concluded)

Public Act 75 of 2010 requires each actively employed member of MPSERS after June 30, 2010 to annually contribute 3% of their compensation to offset employer contributions for health care benefits of current retirees.

Retiree Healthcare Reform of 2012

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

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

Employer Contributions

The employer contribution rate ranged from 5.52% - 6.45% of covered payroll for the period October 1, 2013 to March 9, 2015, 2.2% to 2.71% of covered payroll for the period from March 10, 2015 to September 30, 2015, and from 6.4% to 6.83% of covered payroll for the period from October 1, 2015 through June 30, 2016 dependent upon the employee's date of hire and plan election.

The District postemployment healthcare contributions to MPSERS for the years ended June 30, 2016, 2015 and 2014 were approximately \$728,000, \$770,000 and \$441,000

**HOUGHTON LAKE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - RISK MANAGEMENT

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' 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 years, 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 District continues to carry commercial insurance for other risks of loss, including property and casualty errors and omissions, fleet and employee health and accident insurance.

NOTE 9 - TRANSFERS

The general fund transferred \$64,684 to the QZAB debt service fund to fund the required set aside funding requirement.

NOTE 10 - UPCOMING ACCOUNTING PRONOUNCEMENTS

Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, was issued by the GASB in June 2015 and will be effective for the District's 2018 fiscal year. The Statement requires governments that participate in defined benefit other post-employment benefit (OPEB) plans to report in the statement of net position a net OPEB liability. The net OPEB liability is the difference between the total OPEB liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries. Statement 75 requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net OPEB liability and expense for the cost-sharing plan. The Statement also will improve the comparability and consistency of how governments calculate the OPEB liabilities and expense.

**HOUGHTON LAKE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 10 - UPCOMING ACCOUNTING PRONOUNCEMENTS (Concluded)

Governmental Accounting Standards Board (GASB) Statement No. 77, *Tax Abatement Disclosures*, was issued by the GASB in August 2015 and will be effective for the District's 2017 year end. The Statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements in the footnotes of the financial statements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatements recipients.
- The gross dollar amount of taxes abated during the period
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement

This Statement will improve the user's ability on how tax abatements affect the reporting unit's financial positions and results of operations, including their ability to raise resources in the future.

REQUIRED SUPPLEMENTARY INFORMATION

**HOUGHTON LAKE COMMUNITY SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2016**

	<u>Original</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES:				
Local sources	\$ 7,658,006	\$ 7,466,397	\$ 7,483,300	\$ 16,903
State sources	5,013,263	5,169,480	5,053,206	(116,274)
Federal sources	1,639,944	1,841,218	1,758,326	(82,892)
Incoming transfers and other	31,000	53,792	48,632	(5,160)
Total revenues	<u>14,342,213</u>	<u>14,530,887</u>	<u>14,343,464</u>	<u>(187,423)</u>
EXPENDITURES:				
Current:				
Instruction:				
Basic programs	6,128,930	6,162,993	6,006,106	156,887
Added needs	2,164,993	2,217,294	2,190,669	26,625
Adult education	76,451	91,096	77,147	13,949
Total instruction	<u>8,370,374</u>	<u>8,471,383</u>	<u>8,273,922</u>	<u>197,461</u>
Supporting services:				
Pupil	717,345	698,587	681,546	17,041
Instructional staff	328,041	417,404	408,651	8,753
General administration	273,059	297,322	296,271	1,051
School administration	1,031,606	1,050,502	1,040,822	9,680
Business	366,631	351,473	335,485	15,988
Operation/maintenance	1,195,205	1,197,773	1,105,372	92,401
Pupil transportation	1,016,179	976,801	935,552	41,249
Central	930,880	689,837	667,619	22,218
Total supporting services	<u>5,858,946</u>	<u>5,679,699</u>	<u>5,471,318</u>	<u>208,381</u>
Community services	91,810	519,010	509,622	9,388
Total expenditures	<u>14,321,130</u>	<u>14,670,092</u>	<u>14,254,862</u>	<u>415,230</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>21,083</u>	<u>(139,205)</u>	<u>88,602</u>	<u>227,807</u>
OTHER FINANCING SOURCES (USES):				
Transfers out	(64,684)	(64,684)	(64,684)	-
Total other financing uses	<u>(64,684)</u>	<u>(64,684)</u>	<u>(64,684)</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	<u>\$ (43,601)</u>	<u>\$ (203,889)</u>	<u>23,918</u>	<u>\$ 227,807</u>
FUND BALANCE:				
Beginning of year			<u>3,183,397</u>	
End of year			<u>\$ 3,207,315</u>	

**HOUGHTON LAKE COMMUNITY SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE REPORTING UNIT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED
AS OF 9/30 OF EACH FISCAL YEAR)**

	<u>2015</u>	<u>2014</u>
Reporting unit's proportion of net pension liability (%)	0.08180%	0.08096%
Reporting unit's proportionate share of net pension liability	\$ 19,979,985	\$ 17,832,362
Reporting unit's covered-employee payroll	\$ 6,822,821	\$ 6,840,439
Reporting unit's proportionate share of net pension liability as a percentage of its covered-employee payroll	292.84%	260.69%
Plan fiduciary net position as a percentage of total pension liability	63.17%	66.20%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, the District presents information for those years for which information is available.

**HOUGHTON LAKE COMMUNITY SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE REPORTING UNIT'S CONTRIBUTIONS
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED
AS OF 6/30 OF EACH FISCAL YEAR)**

	<u>2016</u>	<u>2015</u>
Statutorily required contributions	\$ 1,809,685	\$ 1,492,289
Contributions in relation to statutorily required contributions	<u>1,809,685</u>	<u>1,492,289</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Reporting unit's covered-employee payroll	\$ 7,143,586	\$ 6,688,782
Contributions as a percentage of covered-employee payroll	25.33%	22.31%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, the District presents information for those years for which information is available.

**HOUGHTON LAKE COMMUNITY SCHOOLS
SCHEDULE OF NET PENSION LIABILITY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2016**

Changes of benefits terms: There were no changes of benefits terms in 2015.

Changes of assumptions: There were no changes of benefit assumptions in 2015.

ADDITIONAL SUPPLEMENTARY INFORMATION

**HOUGHTON LAKE COMMUNITY SCHOOLS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND
JUNE 30, 2016**

	Special revenue		Total nonmajor funds
	Food service	2008 Debt Service	
ASSETS			
ASSETS:			
Cash and cash equivalents	\$ 175,959	\$ 185,104	\$ 361,063
Intergovernmental receivable	24,050	-	24,050
Due from other funds	154,891	1,888	156,779
Inventories	7,468	-	7,468
Prepays	72,000	-	72,000
	\$ 434,368	\$ 186,992	\$ 621,360
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	\$ 61,400	\$ -	\$ 61,400
Due to other funds	36,660	76	36,736
	98,060	76	98,136
FUND BALANCES:			
Nonspendable:			
Inventories	7,468	-	7,468
Prepays	72,000	-	72,000
Restricted for:			
Debt service	-	186,916	186,916
Food service	256,840	-	256,840
	336,308	186,916	523,224
TOTAL FUND BALANCES	336,308	186,916	523,224
TOTAL LIABILITIES AND FUND BALANCES	\$ 434,368	\$ 186,992	\$ 621,360

**HOUGHTON LAKE COMMUNITY SCHOOLS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUND
 YEAR ENDED JUNE 30, 2016**

	<u>Special revenue</u>		<u>Total nonmajor funds</u>
	<u>Food service</u>	<u>2008 Debt Service</u>	
REVENUES:			
Local sources:			
Property taxes	\$ -	\$ 665,906	\$ 665,906
Food sales	75,768	-	75,768
Total local sources	75,768	665,906	741,674
State sources	24,427	1,971	26,398
Federal sources	744,627	-	744,627
Total revenues	844,822	667,877	1,512,699
EXPENDITURES:			
Current:			
Food service activities	809,351	-	809,351
Capital outlay	35,372	-	35,372
Debt service:			
Principal repayment	-	335,000	335,000
Interest expense	-	244,875	244,875
Total expenditures	844,723	579,875	1,424,598
NET CHANGE IN FUND BALANCES	99	88,002	88,101
FUND BALANCES:			
Beginning of year	336,209	98,914	435,123
End of year	\$ 336,308	\$ 186,916	\$ 523,224

**HOUGHTON LAKE COMMUNITY SCHOOLS
BONDED DEBT
QUALIFIED ZONE ACADEMY BONDS (QZAB)
JUNE 30, 2016**

<u>Calendar Year</u>	<u>Interest rate</u>	<u>Principal due June 21</u>
2021	1.00%	<u>\$ 1,000,000</u>

The above bonds dated June 21, 2005 were issued for the purpose of financing renovations and improvements to school properties. The amount of the original bond issue was \$1,000,000.

Bonds of this issue are not subject to redemption prior to maturity.

**HOUGHTON LAKE COMMUNITY SCHOOLS
BONDED DEBT
JUNE 30, 2016**

2008 General Obligation Bonds

Fiscal year year	Principal due May 1,	Interest due		Total due annually
		November 1	May 1	
2017	\$ 345,000	\$ 116,537	\$ 116,537	\$ 578,074
2018	365,000	107,912	107,912	580,824
2019	385,000	98,787	98,787	582,574
2020	400,000	91,087	91,087	582,174
2021	415,000	83,087	83,087	581,174
2022	430,000	74,528	74,528	579,056
2023	450,000	65,498	65,498	580,996
2024	470,000	56,048	56,048	582,096
2025	500,000	46,060	46,060	592,120
2026	505,000	35,185	35,185	575,370
2027	530,000	24,075	24,075	578,150
2028	540,000	12,150	12,150	564,300
Total	<u>\$ 5,335,000</u>	<u>\$ 810,954</u>	<u>\$ 810,954</u>	<u>\$ 6,956,908</u>

The above bonds dated September 30, 2008 were issued for the purpose of building and site purposes. The amount of the original bond issue was \$7,150,000. The above bonds carry interest ranging from 4.00% to 5.00%.

**HOUGHTON LAKE COMMUNITY SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016**

Federal grantor/pass-through grantor program title	Federal CFDA number	Pass-through grantor's number	Award amount	Accrued revenue 7/1/2015	Prior year expenditures (memorandum only)	Adjustments	Current year receipts (cash basis)	Current year expenditures	Accrued revenue 6/30/2016
<u>U.S. Department of Agriculture:</u>									
Passed through Michigan Department of Education:									
Child nutrition cluster:									
Non-cash assistance (donated food):									
National School Lunch Program - donated food Entitlement	10.555		\$ 49,346	\$ -	\$ -	\$ -	\$ 49,346	\$ 49,346	\$ -
Cash assistance:									
National School Lunch Program - Section 11	10.555	151960	62,566	13,325	-	-	62,566	49,241	-
		161960	440,042	-	-	-	440,042	457,909	17,867
		151980	854	23	-	-	854	831	-
		161980	17,977	-	-	-	17,977	17,977	-
			<u>521,439</u>	<u>13,348</u>	<u>-</u>	<u>-</u>	<u>521,439</u>	<u>525,958</u>	<u>17,867</u>
Total CFDA #10.555			<u>570,785</u>	<u>13,348</u>	<u>-</u>	<u>-</u>	<u>570,785</u>	<u>575,304</u>	<u>17,867</u>
School Breakfast Program	10.553	151970	17,758	4,024	-	-	17,758	13,734	-
		161970	142,397	-	-	-	142,397	148,181	5,784
			<u>160,155</u>	<u>4,024</u>	<u>-</u>	<u>-</u>	<u>160,155</u>	<u>161,915</u>	<u>5,784</u>
National School Lunch Program - Summer Food Service	10.559	150900-1115	6,354	-	-	-	6,354	6,354	-
		160900-0916	362	-	-	-	-	362	362
		151900-1115	655	-	-	-	655	655	-
		161900-0916	37	-	-	-	-	37	37
			<u>7,408</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,009</u>	<u>7,408</u>	<u>399</u>
Total cash assistance			<u>689,002</u>	<u>17,372</u>	<u>-</u>	<u>-</u>	<u>688,603</u>	<u>695,281</u>	<u>24,050</u>
Total U.S. Department of Agriculture (Cluster total)			<u>738,348</u>	<u>17,372</u>	<u>-</u>	<u>-</u>	<u>737,949</u>	<u>744,627</u>	<u>24,050</u>

The accompanying notes are an integral part of this schedule.

**HOUGHTON LAKE COMMUNITY SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016**

Federal grantor/pass-through grantor program title	Federal CFDA number	Pass-through grantor's number	Award amount	Accrued revenue 7/1/2015	Prior year expenditures (memorandum only)	Adjustments	Current year receipts (cash basis)	Current year expenditures	Accrued revenue 6/30/2016
U.S. Department of Education:									
Passed through C.O.O.R.I.S.D.:									
Special Education Cluster:									
Special Education Flow Through Grant	84.027	150450-1415	\$ 366,788	\$ 138,383	\$ 366,788	\$ -	\$ 138,383	\$ -	\$ -
		160450-1516	373,019	-	-	-	281,495	373,019	91,524
Total Special Education			739,807	138,383	366,788	-	419,878	373,019	91,524
Passed through Michigan Department of Education:									
Adult Basic Education									
	84.002	151130-151777	65,000	1,423	55,912	-	1,423	-	-
		161130-161777	76,864	-	-	-	41,445	65,122	23,677
		151190-151777	30,000	2,174	-	-	2,174	-	-
		161190-161777	34,044	-	-	-	10,829	21,189	10,360
Total Adult Basic Education			205,908	3,597	55,912	-	55,871	86,311	34,037
Title I	84.010	151530-1415	777,757	68,218	716,098	18,418	86,636	-	-
		161530-1516	659,121	-	-	-	482,262	678,822	196,560
Total Title I			1,436,878	68,218	716,098	18,418	568,898	678,822	196,560
Title II - Improving Teacher Quality	84.367	150520-1415	251,359	52,238	198,017	-	52,238	-	-
		160520-1516	204,276	-	-	-	143,069	172,754	29,685
Total Title II - Improving Teacher Quality			455,635	52,238	198,017	-	195,307	172,754	29,685
Title VIB	84.358B	160660-1516	25,044	-	-	-	-	23,697	23,697
Total passed through Michigan Department of Education			2,123,465	124,053	970,027	18,418	820,076	961,584	283,979
Total U.S. Department of Education			2,863,272	262,436	1,336,815	18,418	1,239,954	1,334,603	375,503
U.S. Department of Health and Human Services:									
Passed through Michigan Department of Health and Human Services:									
Safe Schools and Healthy Students									
	93.243	142704-SSHS2015	208,688	584	114,242	-	17,026	16,442	-
		152704-SSHS2016	392,506	-	-	-	313,318	372,375	59,057
			601,194	584	114,242	-	330,344	388,817	59,057
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 4,202,814	\$ 280,392	\$ 1,451,057	\$ 18,418	\$ 2,308,247	\$ 2,468,047	\$ 458,610

The accompanying notes are an integral part of this schedule.

**HOUGHTON LAKE COMMUNITY SCHOOLS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016**

- 1 Basis of presentation - The accompanying schedule of expenditures of federal awards (the "Schedule") includes the grant activity of Houghton Lake Community Schools 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* (CFR) 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 Houghton Lake Community Schools, it is not intended to and does not present the financial position or changes in net position of Houghton Lake Community Schools.
2. Summary of Significant Accounting Policies - Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance and in OMB Circular A-87, *Cost Principles for States, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts (if any) shown on the schedule represent 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. Houghton Lake Community Schools has elected to not use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance. The District does not pass through federal funds.
3. Management has utilized the Grant Section Auditors Report in preparing the Schedule of Expenditures of Federal Awards.
4. Federal expenditures are reported as revenue in the following funds in the financial statements:

General fund revenue	\$ 1,758,326
Other non-major governmental funds revenue	<u>744,627</u>
	2,502,953
Less federal forest payments not subject to 2 CFR 200	<u>(34,906)</u>
Total federal expenditures	<u><u>\$ 2,468,047</u></u>

**INDEPENDENT AUDITOR'S 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***

To the Board of Education
Houghton Lake Community Schools

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Houghton Lake Community Schools as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Houghton Lake Community Schools' basic financial statements and have issued our report thereon dated September 20, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Houghton Lake 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 the Houghton Lake Community Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of the Houghton Lake 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Houghton Lake 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.

Maney Costeiran PC

September 20, 2016

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Education
Houghton Lake Community Schools

Report on Compliance for Each Major Federal Program

We have audited Houghton Lake 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 Houghton Lake Community Schools' major federal programs for the year ended June 30, 2016. Houghton Lake Community Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Houghton Lake 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 requirements of Title 2 *U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Houghton Lake 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 Houghton Lake Community Schools' compliance.

Opinion on Each Major Federal Program

In our opinion, Houghton Lake 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 Houghton Lake 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 Houghton Lake 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 Houghton Lake 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 combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

Maney Costeiran PC

September 20, 2016

**HOUGHTON LAKE COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: *Unmodified*

Internal control over financial reporting:

➤ Material weakness(es) identified? _____ Yes X No

➤ Significant deficiency(ies) identified? _____ Yes X None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

➤ Material weakness(es) identified? _____ Yes X No

➤ Significant deficiency(ies) identified? _____ Yes X None reported

Type of auditor's report issued on compliance for major programs: *Unmodified*

Any audit findings disclosed that are required to be reported in accordance with Title 2 CFR Section 200.516(a)? _____ Yes X No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.010	Title I

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

Auditee qualified as low-risk auditee? X Yes _____ No

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

**HOUGHTON LAKE COMMUNITY SCHOOLS
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016**

There were no audit findings in either of the prior two years.

September 20, 2016

To the Board of Education
Houghton Lake Community Schools

We have audited the financial statements of Houghton Lake Community Schools for the year ended June 30, 2016, and have issued our report thereon dated September 20, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and OMB's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards, *Government Auditing Standards* and OMB's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)

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

In planning and performing our audit, we considered Houghton Lake Community Schools' of internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance.

As part of obtaining reasonable assurance about whether Houghton Lake Community Schools' financial statements are free of material misstatement, we performed test of its compliance with certain provisions of laws, regulations, contracts, and grants, 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. Also in accordance with the Uniform Guidance, we examined, on a test basis, evidence about Houghton Lake Community Schools' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on Houghton Lake Community Schools' compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Houghton Lake Community Schools' compliance with those requirements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on June 6, 2016.

Significant Audit Findings

1. Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Houghton Lake 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 2016. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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

Estimates have been used to calculate the net pension liability.

Management's estimate in calculating the liability for employee compensated absences:

The estimated liability is approximately \$407,000. We evaluated the key factors and assumptions used to develop the balance of employee compensated absences and severance benefits in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's determination of the estimated life span of the capital assets:

We evaluated the key factors and assumptions used by management to develop the estimated life span of the capital assets in determining that it is reasonable in relation to the financial statements taken as a whole. In addition, certain amounts included in capital assets have been estimated based on an outside appraisal company.

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

We did not identify any sensitive disclosures.

2. *Difficulties Encountered in Performing the Audit*

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

3. *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all 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 the financial statements taken as a whole.

4. *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.

5. *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated September 20, 2016.

6. *Management Consultations with Other Independent Accountants*

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

7. *Other Audit Findings or Issues*

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

At June 30, 2016, the Food Service Fund, fund balance exceeded MDE guidelines for the second consecutive year. We recommend the District communicate with the MDE regarding the District's plan to come into compliance.

8. *Other Matters*

We applied certain limited procedures to the required supplementary information (RSI) which are required and supplement 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.

We were engaged to report on the other supplementary information, which accompany the financial statements but are not RSI. With respect to this other supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the other supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

A separate management letter was not issued. The District over budgeted revenues in the general fund and this should be monitored in the future.

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

Very truly yours,

Maney Costeiran PC