



# WEINLANDER FITZHUGH

HEMLOCK PUBLIC SCHOOLS  
HEMLOCK, MICHIGAN  
FINANCIAL STATEMENTS  
JUNE 30, 2017

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# WEINLANDER FITZHUGH

CERTIFIED PUBLIC ACCOUNTANTS  
& CONSULTANTS

## INDEPENDENT AUDITOR'S REPORT

September 28, 2017

Board of Education  
Hemlock Public Schools  
Hemlock, Michigan

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Hemlock Public Schools (School District), as of and for the year ended June 30, 2017 and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; 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 U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 School District'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 School District'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 Hemlock Public Schools as of June 30, 2017 and the respective changes in financial position for the year then ended in accordance with U.S. generally accepted accounting principles.

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Board of Education  
Hemlock Public Schools  
September 28, 2017

## ***Other Matters***

### *Required Supplementary Information*

U.S. generally accepted accounting principles require that the management's discussion and analysis, budgetary comparison information and pension schedules as noted 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 U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The combining nonmajor fund financial statements and schedules of bonded indebtedness are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining nonmajor fund financial statements and schedules of bonded indebtedness are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the combining nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2017, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

*Weinlander Fitzhugh*

**HEMLOCK PUBLIC SCHOOLS**  
Management's Discussion & Analysis  
For the Year Ended June 30, 2017

Our discussion and analysis of Hemlock Public Schools' (School District) financial performance provides an overview of the School District's financial activities for the fiscal year ended June 30, 2017.

**Financial Highlights**

The School District's net position increased by \$637,195 or 5%. Program revenues were \$2,890,507 or 21% of total revenues, and general revenues were \$10,895,495 or 79%.

The General Fund reported a positive fund balance of \$1,665,524. The Debt Service Fund reported a positive fund balance of \$342,067.

**Using this Annual Financial Report**

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

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

Basic Financial Statements

- District-wide Financial Statements
- Fund Financial Statements
- Notes to the Basic Financial Statements

Budgetary Information for the General Fund (Required Supplemental Information)

Pension Schedules (Required Supplemental Information)

Other Supplemental Information

**HEMLOCK PUBLIC SCHOOLS**  
Management's Discussion & Analysis  
For the Year Ended June 30, 2017

**Reporting the District as a Whole**

*The Statement of Net Position and Statement of Activities*

One of the most important questions asked about the School District's finances is: "Is the School District better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the School District as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector companies. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

These two statements report the School District's net position as a way to measure the School District's financial position. The change in net position provides the reader a tool to assist in determining whether the School District's financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors such as property tax base, student enrollment growth and facility conditions in arriving at their conclusion regarding the overall health of the School District.

**Reporting the District's Most Significant Funds**

*Fund Financial Statements*

The School District's fund financial statements provide detailed information about the most significant funds - not the School District as a whole. Some funds are required to be established by State law and by bond covenants. Other funds are established to help it control and manage money for particular purposes or to meet legal responsibilities for using certain taxes, grants and other sources of revenue. The School District's two types of funds, governmental and fiduciary, use different accounting approaches as further described in the notes to the financial statements.

*Governmental Funds*

Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources available to spend in the near future to finance the School District's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the basic financial statements.

*Fiduciary Funds*

The School District is the trustee, or fiduciary, for its student activity funds and scholarship funds. All of the School District's fiduciary activities are reported in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position. We exclude these activities from the School District's other financial statements because the assets cannot be utilized by the School District to finance its operations.

**HEMLOCK PUBLIC SCHOOLS**  
**Management's Discussion & Analysis**  
For the Year Ended June 30, 2017

**District-wide Financial Analysis**

The statement of net position provides the perspective of the School District as a whole. Exhibit A provides a summary of the School District's net position as of June 30, 2017 and 2016:

<b>Exhibit A</b>	<u>Governmental Activities</u>	
	<u>2017</u>	<u>2016</u>
<b>Assets</b>		
Current and other assets	\$ 4,044,294	\$ 3,597,055
Capital assets - net of accumulated depreciation	13,554,678	14,551,375
Total assets	<u>17,598,972</u>	<u>18,148,430</u>
<b>Deferred Outflows of Resources</b>		
Deferred loss on refunding	119,822	143,787
Related to pensions	2,443,720	1,805,942
Total deferred outflows of resources	<u>2,563,542</u>	<u>1,949,729</u>
<b>Liabilities</b>		
Current liabilities	3,385,977	3,464,426
Long-term liabilities	28,582,364	29,076,739
Total liabilities	<u>31,968,341</u>	<u>32,541,165</u>
<b>Deferred Inflows of Resources</b>		
Related to pensions	912,868	912,884
<b>Net Position</b>		
Net investment in capital assets	(85,343)	(476,680)
Restricted	299,269	296,781
Unrestricted	(12,932,621)	(13,175,991)
Total net position	<u>\$ (12,718,695)</u>	<u>\$ (13,355,890)</u>

The analysis on the previous page focuses on net position (see Exhibit A). The School District's net position of governmental activities was \$(12,718,695) at June 30, 2017. Investment in property and equipment, net of related debt totaling \$(85,343), compares the original costs less depreciation of the School District's capital assets to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net position is reported separately to show legal constraints from debt requirements and legislation that limit the School District's ability to use that net position for day-to-day operations.

The \$(12,932,621) in unrestricted net position of governmental activities represents the *accumulated* results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.



**HEMLOCK PUBLIC SCHOOLS**  
**Management's Discussion & Analysis**  
For the Year Ended June 30, 2017

The School District implemented GASB Statement No. 68 in 2015. The effect of this Statement required the School District to report in the summary of net position, a liability of \$16,175,073 for 2017 and \$15,236,344 for 2016.

The results of this year's operations for the School District as a whole are reported in the statement of activities. Exhibit B provides a summary of the changes in net position for the years ended June 30, 2017 and 2016.

<b>Exhibit B</b>	<u>Governmental Activities</u>	
	<u>2017</u>	<u>2016</u>
<b>Revenues</b>		
Program revenue:		
Charges for services	\$ 763,438	\$ 546,078
Grants and categoricals	2,127,069	1,723,597
General revenue:		
Property taxes	2,907,940	3,146,710
State aid	7,906,913	7,424,967
Other	80,642	74,669
Total revenues	<u>13,786,002</u>	<u>12,916,021</u>
<b>Function/Program Expenses</b>		
Instruction	6,751,517	6,334,526
Support services	3,988,103	3,670,679
Community services	287,143	239,563
Food services	371,419	363,148
Athletics	217,696	224,920
Capital outlay	31,287	22,711
Interest on long-term debt	457,539	521,947
Depreciation (unallocated)	1,044,103	1,040,001
Total expenses	<u>13,148,807</u>	<u>12,417,495</u>
<b>Change in Net Position</b>	<u>\$ 637,195</u>	<u>\$ 498,526</u>

As reported in the statement of activities, the cost of all of our *governmental* activities this year was \$13,148,807. Certain activities were partially funded from those who benefited from the programs, \$763,438, or by the other governments and organizations that subsidized certain programs with grants and categoricals of \$2,127,069. We paid for the remaining "public benefit" portion of our governmental activities with \$2,907,940 in taxes, \$7,906,913 in State aid and with our other revenues, such as interest and entitlements.

The School District's governmental activities had an increase in net position of \$637,195. The major reason was increased revenues attributable mostly to an increase in the per pupil foundation. This coupled with organizational effectiveness gained by right sizing staff and controlling expenses in alignment with our strategic plan. The increase in net position differs from the change in fund balance and a reconciliation appears in the financial statements.

**HEMLOCK PUBLIC SCHOOLS**  
**Management's Discussion & Analysis**  
For the Year Ended June 30, 2017

**The School District's Funds**

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

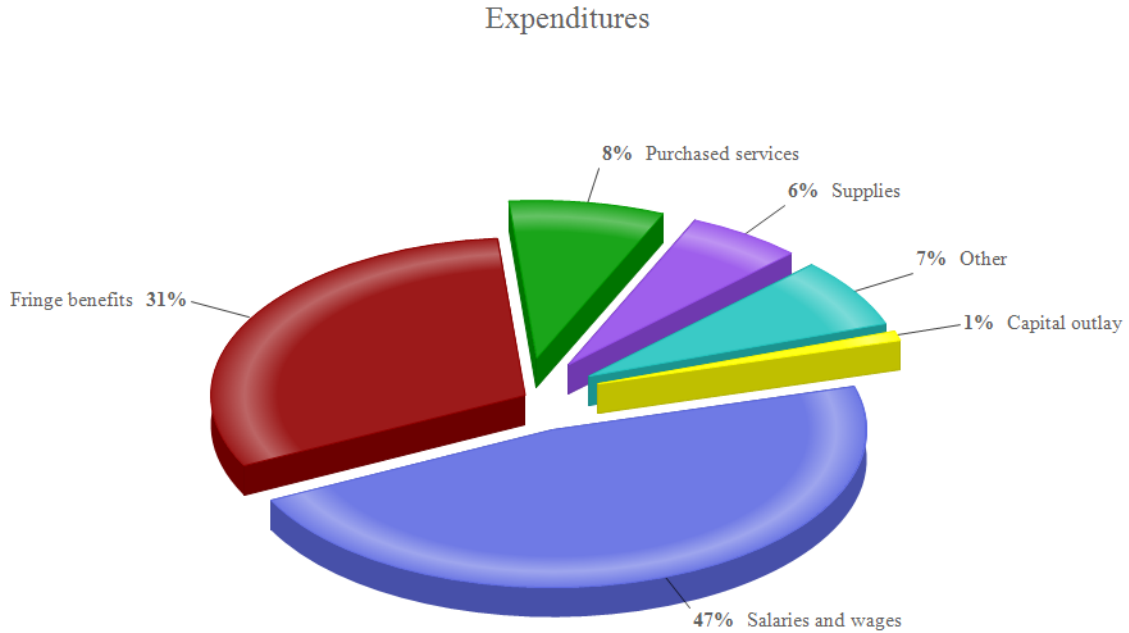
The School District's governmental funds reported a combined fund balance of \$2,057,771, which is above last year's total of \$1,454,646. The schedule below indicates the fund balance and the total change in fund balances as of June 30, 2017 and 2016.

	Fund Balance <u>6/30/2017</u>	Fund Balance <u>6/30/2016</u>	Increase (Decrease)
General	\$ 1,665,524	\$ 1,091,776	\$ 573,748
Debt Service	342,067	343,798	(1,731)
Special Revenue	50,180	19,072	31,108
	<u>\$ 2,057,771</u>	<u>\$ 1,454,646</u>	<u>\$ 603,125</u>

- Our General Fund increase is due to higher than expected pupil count, a foundation allowance increase from the State of Michigan, and sharing services with other area school districts for which we were able to bill those districts.
- Our Debt Service Funds decreased mainly due to decreased interest due as principal is paid down.
- Our Special Revenue Funds increased due to a higher rate of participation in the food service program.

**HEMLOCK PUBLIC SCHOOLS**  
**Management's Discussion & Analysis**  
For the Year Ended June 30, 2017

As the graph below illustrates, the largest portions of General Fund expenditures are for salaries and fringe benefits. The School District by nature is a labor intensive organization.



Expenditures by object	<u>2017</u>	<u>2016</u>
Salaries and wages	\$ 5,295,896	\$ 5,246,669
Fringe benefits	3,401,129	3,255,374
Purchased services	901,422	815,286
Supplies	664,078	609,241
Capital outlay	22,437	41,838
Other	780,709	839,638
Total	<u>\$ 11,065,671</u>	<u>\$ 10,808,046</u>

Expenditures have increased by \$257,625 from the prior year mainly due to increasing costs for fringe benefits, including MPSERS and health care costs.

**HEMLOCK PUBLIC SCHOOLS**  
**Management's Discussion & Analysis**  
For the Year Ended June 30, 2017

**General Fund Budgetary Highlights**

Over the course of the year, the School District revises its budget to reflect changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements. Changes to the General Fund original budget were as follows:

- Budgeted revenues were increased by \$787,858. Local revenues were increased due to our expanding child care program and the updated calculation of property taxes. The increase in state sources is due to an enrollment increase and an increase in the pupil foundation.
- Budgeted expenditures were increased by \$419,318 mainly because of increased employee fringe benefits along with the expansion of community services such as child-care and latchkey programs and a Robotics competitive program (which also have off-setting revenue).
- Actual revenues came in \$93,907 higher along with expenditures \$108,865 lower in comparison to the final operating budget.

**Capital Assets**

At June 30, 2017, the School District had \$13,554,678 invested in a broad range of capital assets, including land, buildings, furniture and equipment. This amount represents a net decrease (including additions and disposals) of 7% from last year.

	2017	2016
Land	\$ 688,500	\$ 688,500
Construction in process	16,200	0
Buildings and improvements	30,386,488	30,380,836
Buses and other vehicles	732,905	860,508
Furniture and equipment	1,694,979	1,675,342
Total capital assets	33,519,072	33,605,186
Less accumulated depreciation	19,964,394	19,053,811
Net capital assets	\$ 13,554,678	\$ 14,551,375

This year's additions of \$47,406 were for lighting for the soccer field, replacement of water heater and snow plow equipment. The soccer lighting was made possible by local donations.

We present more detailed information about our capital assets in the notes to the financial statements.

**HEMLOCK PUBLIC SCHOOLS**  
**Management's Discussion & Analysis**  
For the Year Ended June 30, 2017

**Debt**

At the end of this year, the School District had \$12,840,000 in bonds outstanding versus \$14,105,000 in the previous year.

	<u>2017</u>	<u>2016</u>
2013 Improvement Bonds	\$ 7,085,000	\$ 7,235,000
2015 Refunding Bonds	5,755,000	6,870,000
	<u>\$ 12,840,000</u>	<u>\$ 14,105,000</u>

**Factors Expected to have an Effect on Future Operations**

Our elected Board and administration consider many factors when setting the School District's 2018 fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The 2018 fiscal year budget was adopted in June 2017, based on an estimate of students that will be enrolled in September 2017. Under state law, the School District cannot access additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2017 - 2018 school year, we anticipate that the fall student count will increase from estimates used in creating the 2018 fiscal year budget. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget if actual district resources are not sufficient to fund original appropriations.

Since the School District's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts. The State periodically holds a revenue-estimating conference to estimate revenues. Based on the results of the most recent conference, the State estimates that funds are sufficient to fund the appropriation until 2017 - 2018.

**Requests for Information**

This financial report is designed to provide a general overview of the School District's finances for all those with an interest in the School District. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Office of the Superintendent  
Hemlock Public Schools  
200 Wilson Street  
P.O. Box 260  
Hemlock, MI 48626

HEMLOCK PUBLIC SCHOOLS  
Statement of Net Position  
June 30, 2017

	Governmental Activities
<u>Assets</u>	
Cash and cash equivalents	\$ 2,031,955
Receivables - net:	
Accounts receivable	2,067
Due from other governmental units	1,975,640
Internal balances	5,572
Inventories	7,960
Prepaid expenses	21,100
Capital assets less accumulated depreciation \$19,964,394	13,554,678
Total assets	17,598,972
<u>Deferred Outflows of Resources</u>	
Deferred loss on refunding	119,822
Related to pensions	2,443,720
Total Deferred Outflows of Resources	2,563,542
<u>Liabilities</u>	
Accounts payable	100,327
Accrued payroll and other liabilities	924,280
State aid anticipation note payable	857,144
Unearned revenue	104,772
Accrued interest payable	42,798
Long-term liabilities:	
Due within one year	1,356,656
Due in more than one year	12,407,291
Net pension liability	16,175,073
Total liabilities	31,968,341
<u>Deferred Inflows of Resources</u>	
Related to pensions	912,868
<u>Net Position</u>	
Net investment in capital assets	(85,343)
Restricted for debt service	299,269
Unrestricted	(12,932,621)
Total net position	\$ (12,718,695)

See accompanying notes to financial statements.

HEMLOCK PUBLIC SCHOOLS  
Statement of Activities  
For the Year Ended June 30, 2017

	Program Revenues			Governmental Activities
Expenses	Charges for Services	Operating Grants/ Contributions	Net (Expense) Revenue and Changes in Net Position	
<u>Functions/Programs</u>				
Primary government -				
Governmental activities:				
Instruction	\$ 6,751,517	\$ 278,036	\$ 1,820,825	\$ (4,652,656)
Support services	3,988,103	0	53,883	(3,934,220)
Community services	287,143	221,430	0	(65,713)
Food services	371,419	152,538	236,161	17,280
Athletics	217,696	111,434	16,200	(90,062)
Capital outlay	31,287	0	0	(31,287)
Interest on long-term debt	457,539	0	0	(457,539)
Depreciation (unallocated)	1,044,103	0	0	(1,044,103)
	\$ 13,148,807	\$ 763,438	\$ 2,127,069	(10,258,300)
Total governmental activities				
General revenues:				
Taxes:				
Property taxes, levied for general purposes				1,363,816
Property taxes, levied for debt services				1,544,124
State aid				7,906,913
Interest and investment earnings				880
Other				79,762
				10,895,495
Total general revenues				
Change in net position				637,195
Net position - beginning of year				(13,355,890)
Net position - end of year				\$ (12,718,695)

See accompanying notes to financial statements.

HEMLOCK PUBLIC SCHOOLS  
Governmental Funds  
Balance Sheet  
June 30, 2017

	General	Debt Service	Other Nonmajor Governmental Funds	Total
<u>Assets</u>				
Cash and cash equivalents	\$ 1,647,587	\$ 175,219	\$ 209,149	\$ 2,031,955
Receivables - net:				
Accounts receivable	1,890	0	177	2,067
Due from other funds	169,353	166,848	0	336,201
Due from other governmental units	1,975,640	0	0	1,975,640
Inventories	3,325	0	4,635	7,960
Prepaid expenditures	21,100	0	0	21,100
	<u>\$ 3,818,895</u>	<u>\$ 342,067</u>	<u>\$ 213,961</u>	<u>\$ 4,374,923</u>
<u>Liabilities and Fund Balance</u>				
<u>Liabilities</u>				
Accounts payable	\$ 100,327	\$ 0	\$ 0	\$ 100,327
Due to other funds	166,848	0	163,781	330,629
Accrued payroll and other liabilities	924,280	0	0	924,280
State aid anticipation note payable	857,144	0	0	857,144
Unearned revenue	104,772	0	0	104,772
	<u>2,153,371</u>	<u>0</u>	<u>163,781</u>	<u>2,317,152</u>
<u>Fund Balance</u>				
Nonspendable - inventory	3,325	0	4,635	7,960
Nonspendable - prepaid	21,100	0	0	21,100
Restricted for debt service	0	342,067	0	342,067
Unassigned	1,641,099	0	45,545	1,686,644
	<u>1,665,524</u>	<u>342,067</u>	<u>50,180</u>	<u>2,057,771</u>
Total liabilities and fund balance	<u>\$ 3,818,895</u>	<u>\$ 342,067</u>	<u>\$ 213,961</u>	<u>\$ 4,374,923</u>

See accompanying notes to financial statements.



HEMLOCK PUBLIC SCHOOLS  
 Reconciliation of Balance Sheet of Governmental Funds  
 to the Statement of Net Position  
June 30, 2017

Total fund balance - governmental funds	\$ 2,057,771
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	
Cost of the capital assets	33,519,072
Accumulated depreciation	(19,964,394)
Deferred outflows used in governmental activities are not financial resources and therefore are not reported in governmental funds:	
Deferred loss on refunding	119,822
Related to pensions	2,443,720
Long-term liabilities are not due and payable in the current period and are not reported in the funds:	
Bonds payable	(12,840,000)
Compensated absences	(79,970)
Early retirement incentive	(43,956)
Capital lease obligations	(11,025)
Bond premium, net of amortization	(788,996)
Net pension liability	(16,175,073)
Accrued interest payable is included as a liability in governmental activities	(42,798)
Deferred inflows used in governmental activities are not recognized as current resources and therefore are not reported in governmental funds:	
Related to pensions	<u>(912,868)</u>
Total net position - governmental activities	<u>\$ (12,718,695)</u>

See accompanying notes to financial statements.

HEMLOCK PUBLIC SCHOOLS  
Governmental Funds  
Statement of Revenues, Expenditures and Changes in Fund Balance  
For the Year Ended June 30, 2017

	<u>General</u>	<u>Debt Service</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
<u>Revenues</u>				
Local sources				
Property taxes	\$ 1,363,816	\$ 1,544,124	\$ 0	\$ 2,907,940
Other local sources	531,142	695	163,436	695,273
State sources	8,945,766	290,300	15,541	9,251,607
Federal sources	527,262	0	220,620	747,882
Interdistrict and other sources	274,363	0	0	274,363
Total revenues	<u>11,642,349</u>	<u>1,835,119</u>	<u>399,597</u>	<u>13,877,065</u>
<u>Expenditures</u>				
Current:				
Instruction	6,582,112	0	0	6,582,112
Support services	3,938,821	0	0	3,938,821
Community services	287,143	0	0	287,143
Athletics	223,783	0	0	223,783
Capital outlay	33,812	0	0	33,812
Food services	0	0	371,419	371,419
Principal	0	1,265,000	0	1,265,000
Interest and other	0	571,850	0	571,850
Total expenditures	<u>11,065,671</u>	<u>1,836,850</u>	<u>371,419</u>	<u>13,273,940</u>
Excess (deficiency) of revenues over expenditures	<u>576,678</u>	<u>(1,731)</u>	<u>28,178</u>	<u>603,125</u>
<u>Other Financing Sources (Uses)</u>				
Operating transfers in	0	0	2,930	2,930
Operating transfers out	(2,930)	0	0	(2,930)
Total other financing sources (uses)	<u>(2,930)</u>	<u>0</u>	<u>2,930</u>	<u>0</u>
Net change in fund balance	573,748	(1,731)	31,108	603,125
Fund balance - beginning of year	<u>1,091,776</u>	<u>343,798</u>	<u>19,072</u>	<u>1,454,646</u>
Fund balance - end of year	<u>\$ 1,665,524</u>	<u>\$ 342,067</u>	<u>\$ 50,180</u>	<u>\$ 2,057,771</u>

See accompanying notes to financial statements.

HEMLOCK PUBLIC SCHOOLS  
 Reconciliation of the Statement of Revenues, Expenditures and  
 Changes in Fund Balance of Governmental Funds to the Statement of Activities  
For the Year Ended June 30, 2017

Net change in fund balance - total governmental funds	\$ 603,125
<p>Amounts reported for governmental activities in the statements of activities are different because:</p>	
<p style="padding-left: 20px;">Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation</p>	
Depreciation expense	(1,044,103)
Capital outlay	47,406
<p>Long-term liabilities are not due and payable in the current period and are not reported in the funds:</p>	
Capital lease payments	(11,025)
<p>The issuance of long-term debt (e.g. bonds) provide 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, where as these amounts are deferred and amortized in the statement of activities. The effect of these differences is the treatment of long-term debt and related items as follows:</p>	
Payments on long-term debt	1,265,000
Amortization of bond premium	134,059
Amortization on loss on refunding	(23,965)
<p>Increases in compensated absences are reported as a reduction in expenditures when financial resources are used in the governmental fund in accordance with GASB Interpretation No. 6</p>	
	(12,630)
<p>Decreases in accrued interest are reported as an addition in expenses on the Statement of Activities</p>	
	4,219
<p>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</p>	
Pension related items	(300,935)
Early retirement incentive	(23,956)
Change in net position of governmental activities	\$ 637,195

See accompanying notes to financial statements.

HEMLOCK PUBLIC SCHOOLS  
Fiduciary Funds  
Statement of Fiduciary Net Position  
June 30, 2017

	<u>Agency Funds</u>	<u>Private Purpose Trusts</u>
<u>Assets</u>		
Cash and investments	\$ 230,524	\$ 47,684
<u>Liabilities</u>		
Due to student groups	\$ 224,952	
Due to other funds	<u>5,572</u>	
Total liabilities	<u>\$ 230,524</u>	
<u>Net Position</u>		
Held in trust for scholarships		<u>\$ 47,684</u>

HEMLOCK PUBLIC SCHOOLS  
Fiduciary Funds  
Statement of Changes in Fiduciary Net Position  
For the Year Ended June 30, 2017

		<u>Private Purpose Trusts</u>
<u>Additions</u>		
Contributions and investment income		\$ 587
Total revenues		<u>587</u>
<u>Deductions</u>		
Scholarships		<u>1,000</u>
Total expenditures		<u>1,000</u>
Change in net position		(413)
Net position - beginning of year		<u>48,097</u>
Net position - end of year		<u>\$ 47,684</u>

See accompanying notes to financial statements.

HEMLOCK PUBLIC SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2017

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of Hemlock Public Schools (School District) conform to U.S. generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the School District:

**Reporting Entity**

The School District is governed by an elected Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate component units of the School District. The School District has no component units.

**District-wide and Fund Financial Statements**

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

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

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

HEMLOCK PUBLIC SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2017

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

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

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

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

Amounts reported as program revenue include; (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted state aid.

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

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

Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting.

The School District reports the following major governmental funds:

**General Fund** - The General Fund is used to record the general operations of the School District pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

**Debt Service Fund** - The Debt Service Fund is used to account for the recording of transactions relative to the bonds of the School District.

HEMLOCK PUBLIC SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2017

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

**Assets, Liabilities, and Net Position or Equity**

**Cash and Investments** - Cash and cash equivalents include cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

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

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

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

Buildings and improvements	25-50 years
Buses and other vehicles	8 years
Furniture and equipment	5-20 years

**Compensated Absences** - The liability for compensated absences reported in the district-wide statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

**Long-term Obligations** - In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position.

HEMLOCK PUBLIC SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2017

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

**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 School Employees Retirement Systems (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.

**Fund Equity** - The fund balance classifications are reported on the extent to which a government is bound to observe constraints imposed on the use of the resources in governmental funds. The fund balances are classified as nonspendable, restricted, committed, assigned and unassigned.

Nonspendable fund balance represents amounts that are not in a spendable form. The School District's nonspendable fund balance represents inventories and prepaid expenditures. In the fund financial statements, governmental funds report restrictions on fund balances for amounts that are legally restricted by outside parties for a specific purpose. Committed fund balance represents funds formally set aside by the School District for a particular purpose. The use of committed funds would be approved by the Board of Education through the budget process or official board action.

Assigned fund balance would represent tentative management plans that are subject to change which at the present time the School District does not have any assigned fund balance. The School District's intent would be to spend uncommitted/unassigned funds prior to the use of committed funds. When both restricted and unrestricted resources are available for use, it is the School District's policy to use restricted resources first, then unrestricted resources as they are needed.

**Deferred Outflows and 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. They are the deferred charge on refunding and pension contributions reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. For district-wide financial statements, the School District reports deferred outflows of resources related to pensions. This amount is the result of a difference between what the plan expected to earn from plan investments and what is actually earned. This amount will be amortized over the next four years and included in pension expense. Changes in assumptions relating to the net pension liability are deferred and amortized over the expected remaining service lives of the employees and retirees in the plan. The School District also reported deferred outflows of resources for pension contributions made after the measurement date. This amount will reduce the net pension liability in the following year.



HEMLOCK PUBLIC SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2017

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

**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. For district-wide financial statements, the School District reports deferred inflows of resources related to pensions. This amount is the result of a difference between what the plan expected to earn from the plan investments and what the plan actually earned. This amount will be amortized over the next four years and included in pension expense. Changes in assumptions relating to the net pension liability are deferred and amortized over the expected remaining service lives of the employees and retirees in the plan. Deferred inflows of resources also includes revenue received relating to Section 147c state aid deferred to offset the deferred outflows related to Section 147c pension contributions subsequent to the measurement period.

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

**Property taxes** - For the taxpayers of the School District, properties are assessed as of December 31 and the related property taxes are levied and become a lien on July 1. The final collection date is February 28, after which uncollected taxes are added to the County delinquent tax rolls.

**State Aid** - For the fiscal year ended June 30, 2017, the State of Michigan adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2017, the foundation allowance was based on the average pupil membership counts taken in February of 2016 and September of 2016.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period (currently the fiscal year) and is funded through payments from October 2016 - August 2017. The local revenue is recognized as outlined in Note 1. Amounts receivable from the State of Michigan at June 30, 2017 relating to state aid is \$1,619,231.

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

**HEMLOCK PUBLIC SCHOOLS**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2017**

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

**Events Occurring After Reporting Date**

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through the date of the accompanying Independent Auditor's Report, which is the date the financial statements were available to be issued.

**NOTE 2 - BUDGETS**

The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the state. The law requires appropriation acts to be adopted for General and Special Revenue Funds of school districts prior to the expenditure of monies in a fiscal year.

Hemlock Public Schools follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The School District's Superintendent submits to the Board of Education a proposed budget prior to July 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Budgeted amounts are as originally adopted, or as amended by the Board of Education throughout the year. Budgets are adopted to the functional level.
4. Appropriations lapse at year-end and therefore cancels all encumbrances. These appropriations are re-established at the beginning of the following year.

A comparison of actual results of operations to the budgeted amounts (at the level of control adopted by the Board of Education) for the General Fund is presented as Required Supplemental Information.

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.

**NOTE 3 - CASH AND INVESTMENTS**

Some statutes and the School District's investment policy authorize the School District to make deposits in the accounts of federally insured banks, credit unions and savings and loan associations that have an office in Michigan; the School District is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds and investment pools that are composed of authorized investment vehicles. The School District's deposits are in accordance with statutory authority.

HEMLOCK PUBLIC SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2017

**NOTE 3 - CASH AND INVESTMENTS (CONTINUED)**

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

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash and Investments	\$ 2,031,955	\$ 278,208	\$ 2,310,163

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

Deposits (checking and savings accounts, certificates of deposit)	\$ 2,310,113
Petty cash and cash on hand	50
Total	\$ 2,310,163

Interest Rate Risk

In accordance with its investment policy, the School 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.

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). As of June 30, 2017, the School District's investment in the investment pool was rated AAA by Standard & Poor's.

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2017, \$2,005,993 of the School District's bank balance of \$2,712,319 was exposed to custodial credit risk because it was uninsured and uncollateralized.

The balance of the sweep accounts was used to purchase short-term federal debt securities.

Fair Value Measurement

The School 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.

HEMLOCK PUBLIC SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2017

**NOTE 3 - CASH AND INVESTMENTS (CONTINUED)**

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 School District's own assumptions about the factors market participants would use in pricing an investment and would be based on the best information available.

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 School District does not have any investments subject to the fair value measurement.

**NOTE 4 - CAPITAL ASSETS**

A summary of changes in governmental capital assets follows:

	<u>Balance</u> <u>June 30, 2016</u>	<u>Additions</u>	<u>Disposals and</u> <u>Adjustments</u>	<u>Balance</u> <u>June 30, 2017</u>
Assets not being depreciated:				
Land	\$ 688,500	\$ 0	\$ 0	\$ 688,500
Construction in process	<u>0</u>	<u>16,200</u>	<u>0</u>	<u>16,200</u>
Subtotal	<u>688,500</u>	<u>16,200</u>	<u>0</u>	<u>704,700</u>
Capital assets being depreciated:				
Buildings and improvements	30,380,836	5,652	0	30,386,488
Buses and other vehicles	860,508	5,917	(133,520)	732,905
Furniture and equipment	<u>1,675,342</u>	<u>19,637</u>	<u>0</u>	<u>1,694,979</u>
Subtotal	<u>32,916,686</u>	<u>31,206</u>	<u>(133,520)</u>	<u>32,814,372</u>
Accumulated depreciation:				
Buildings and improvements	17,132,919	941,010	0	18,073,929
Buses and other vehicles	649,926	41,310	(133,520)	557,716
Furniture and equipment	<u>1,270,966</u>	<u>61,783</u>	<u>0</u>	<u>1,332,749</u>
Subtotal	<u>19,053,811</u>	<u>1,044,103</u>	<u>(133,520)</u>	<u>19,964,394</u>
Net capital assets being depreciated	<u>13,862,875</u>	<u>(1,012,897)</u>	<u>0</u>	<u>12,849,978</u>
Net capital assets	<u>\$ 14,551,375</u>	<u>\$ (996,697)</u>	<u>\$ 0</u>	<u>\$ 13,554,678</u>

Depreciation expense for fiscal year ended June 30, 2017 was \$1,044,103. The School District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

HEMLOCK PUBLIC SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2017

**NOTE 5 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

A summary of interfund receivable and payable balances at June 30, 2017 are as follows:

		Payables			
		General	Food Service	Student Activities	Total
Receivables	General	\$ 0	\$ 163,781	\$ 5,572	\$ 169,353
	Debt Service	166,848	0	0	166,848
			\$ 166,848	\$ 163,781	\$ 5,572

A summary of interfund transfers made during the year ended June 30, 2017 are as follows:

		Transfers Out
		General
Transfers In	Food Service	\$ 2,930

These interfund receivable and payable balances resulted from the time lag between the dates that; (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Transfers are used to provide funds for school breakfast.

**NOTE 6 - RECEIVABLES**

Receivables at June 30, 2017 consist of accounts (fees) and intergovernmental grants.

A summary of the intergovernmental receivables (due from other governmental units) follows:

State aid and grants	\$ 1,619,231
Federal grants	82,687
ISD	242,395
Other governments	31,327
	\$ 1,975,640

**NOTE 7 - UNEARNED REVENUE**

Governmental funds report unearned revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also reflect unearned revenue in connection with resources that have been received but not yet earned. At the end of the current fiscal year, grant and categorical aid payments received prior to meeting all eligibility requirements amounted to \$104,772.

HEMLOCK PUBLIC SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2017

**NOTE 8 - SHORT-TERM DEBT ACTIVITY**

The School District issues state aid anticipation notes in advance of State of Michigan state aid payments, depositing the proceeds in its General Fund. These notes are necessary because the School District's cash flow obligation to operating expenses precede the collection of state aid.

<u>Beginning Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Ending Balance</u>
\$ 910,531	\$ 1,500,000	\$ 1,553,387	\$ 857,144

**NOTE 9 - LONG-TERM DEBT**

The following is a summary of governmental long-term obligations for the School District for the year ended June 30, 2017:

	<u>Balance June 30, 2016</u>	<u>Additions</u>	<u>Retirements and Payments</u>	<u>Balance June 30, 2017</u>	<u>Amount Due Within One Year</u>
Bonds	\$ 14,105,000	\$ 0	\$ 1,265,000	\$ 12,840,000	\$ 1,310,000
Compensated absences	67,340	12,630	0	79,970	0
Capital lease obligations	0	13,550	2,525	11,025	2,700
Retirement incentive	20,000	33,956	10,000	43,956	43,956
	<u>\$ 14,192,340</u>	<u>\$ 60,136</u>	<u>\$ 1,277,525</u>	12,974,951	1,356,656
Bond premium				<u>788,996</u>	<u>0</u>
				<u>\$ 13,763,947</u>	<u>\$ 1,356,656</u>

Bonds payable at June 30, 2017 is comprised of the following issues:

\$7,500,000, 2013 School Building and Site bonds due in annual installments of \$125,000 to \$1,995,000 through May 1, 2025; interest at 2.00% to 4.00%	\$ 7,085,000
\$7,945,000, 2015 refunding bonds due in annual installments of \$875,000 to \$1,285,000 through May 1, 2022; interest at 4.00%	<u>5,755,000</u>
Total Bonded Debt	<u>\$ 12,840,000</u>

Compensated absences include unused sick pay and vacation pay. Unused sick pay is calculated using the daily rate for eligible employees times the number of unused days (maximum 50 days). At June 30, 2017, the amount of \$79,970 has been recorded in the district-wide financial statements.

HEMLOCK PUBLIC SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2017

**NOTE 9 - LONG-TERM DEBT (CONTINUED)**

The annual requirements to amortize bonds outstanding as of June 30, 2017, including interest payments are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 1,310,000	\$ 523,500	\$ 1,833,500
2019	1,365,000	474,100	1,839,100
2020	1,420,000	421,200	1,841,200
2021	1,475,000	366,200	1,841,200
2022	1,530,000	309,100	1,839,100
2023 - 2027	5,740,000	484,100	6,224,100
	<u>\$ 12,840,000</u>	<u>\$ 2,578,200</u>	<u>\$ 15,418,200</u>

**NOTE 10 - RISK MANAGEMENT**

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The School District has purchased commercial insurance for medical claims and participates in the SET-SEG risk pool for claims relating to workers' compensation, general liability, and property/casualty claims. Settled claims relating to the commercial insurance did not exceed the amount of insurance coverage in any of the past three fiscal years.

The SET-SEG shared-risk pool program in which the School District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The District has an agreement with AmeraPlan, in which the District maintains a partially self-funded plan for employee benefits covering dental and vision.

**NOTE 11 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT 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/orsschools/0.1607.7-206-36585-.00.html>.

HEMLOCK PUBLIC SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2017

**NOTE 11 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS**  
**(CONTINUED)**

**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 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.



HEMLOCK PUBLIC SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2017

**NOTE 11 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT 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, age 46 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 60<sup>th</sup> birthday and has credited service in each of the last 5 years. For Pension Plus Plan (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 (FAC).

**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.

Final Average Compensation - 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.

HEMLOCK PUBLIC SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2017

**NOTE 11 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS**  
**(CONTINUED)**

**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:

October 1, 2015 - September 30, 2016	14.56% - 18.95%
October 1, 2016 - September 30, 2017	15.27% - 19.03%

The School District's pension contributions for the year ended June 30, 2017 were equal to the required contribution total. Pension contributions were approximately \$2,003,000, with \$1,501,000 specifically for the Defined Benefit Plan. These amounts include contributions funded from the state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate (72.88% for pension and 27.12% for OPEB).

HEMLOCK PUBLIC SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2017

**NOTE 11 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS**  
**(CONTINUED)**

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

**Pension Liabilities**

At June 30, 2017, the School District reported a liability of \$16,175,073 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2015 and rolled-forward using generally accepted actuarial procedures. The School 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, 2016 and 2015, the School District's proportion was 0.06483 and 0.06238 percent.

*MPERS (Plan) Net Pension Liability - As of September 30, 2016:*

Total Pension Liability	\$	67,917,445,000
Plan Fiduciary Net Position	\$	42,968,263,000
Net Pension Liability	\$	24,949,182,000
Proportionate share		0.06483 %
Net Pension liability for the School District	\$	16,175,073

*MPERS (Plan) Net Pension Liability - As of September 30, 2015:*

Total Pension Liability	\$	67,355,988,000
Plan Fiduciary Net Position	\$	42,382,361,000
Net Pension Liability	\$	24,973,627,000
Proportionate share		0.06238 %
Net Pension liability for the School District	\$	15,236,344

HEMLOCK PUBLIC SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2017

**NOTE 11 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS**  
**(CONTINUED)**

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

For the year ended June 30, 2017, the School District recognized pension expense of approximately \$1,792,000. These amounts include contributions funded from the state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate. A portion of the Section 147c restricted funds, 72.88%, is considered part of the statutorily required contribution to the plan and 27.12% for OPEB. The amount of the section 147c revenue that relates to the statutorily required contribution was approximately \$505,155 and has been recorded as a deferred inflow of resources.

At June 30, 2017, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b><u>Deferred Outflows of Resources</u></b>	<b><u>Deferred (Inflows) of Resources</u></b>
Differences between expected and actual experience	\$ 201,584	\$ (38,335)
Net difference between projected and actual earnings on pension plan investments	268,830	0
Changes in assumptions	252,885	0
Changes in proportion and differences between employer contributions and proportionate share of contributions	478,174	(369,378)
Unearned revenue related to pension portion of section 147 c	0	(505,155)
Reporting Unit contributions subsequent to the measurement date	<u>1,242,247</u>	<u>0</u>
<b>Total</b>	<b><u>\$ 2,443,720</u></b>	<b><u>\$ (912,868)</u></b>

\$1,242,247, reported as deferred outflows of resources related to pensions resulting from School 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, 2018.

HEMLOCK PUBLIC SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2017

**NOTE 11 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS**  
**(CONTINUED)**

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

<b>Year Ended June 30</b>	<b>Amount</b>
2018	\$ 129,023
2019	107,881
2020	422,774
2021	134,082
	\$ 793,760

**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%

**Mortality assumptions** - RP2000 Combined Healthy Life Mortality table, adjusted for mortality improvements to 2020 using a 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 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.

HEMLOCK PUBLIC SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2017

**NOTE 11 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS**  
**(CONTINUED)**

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

<b>Investment Category</b>	<b>Target Allocation*</b>	<b>Long-Term Expected Real Rate of Return*</b>
Domestic Equity Pools	28.0%	5.9%
Alternate Investment Pools	18.0%	9.2%
International Equity	16.0%	7.2%
Fixed Income Pools	10.5%	0.9%
Real Estate and Infrastructure Pools	10.0%	4.3%
Absolute Return Pools	15.5%	6.0%
Short Term Investment Pools	2.0%	0.0%
<b>Total</b>	<b>100.0%</b>	

\*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.

**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 7.0 - 8.0 percent, as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	<b>1% Decrease (6.0-7.0%)</b>	<b>Discount Rate (7.0-8.0%)</b>	<b>1% Increase (8.0-9.0%)</b>
Reporting Unit's proportionate share of the net pension liability	\$20,829,423	\$16,175,073	\$12,251,009

HEMLOCK PUBLIC SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2017

**NOTE 11 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS**  
**(CONTINUED)**

**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 2016 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 included in the financial statements as a liability titled accrued payroll and payroll liabilities. 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.

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 February 1, 2013.

HEMLOCK PUBLIC SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2017

**NOTE 11 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS**  
**(CONTINUED)**

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, 6.4% to 6.83% of covered payroll for the period from October 1, 2015 through September 30, 2016, from 5.69% to 5.91% of covered payroll for the period from October 1, 2016 through September 30, 2016, and from 5.69% to 5.91% of covered payroll for the period from October 1, 2016 through September 30, 2017 dependent upon the employee's date of hire and plan election.

The School District postemployment healthcare contributions to MPSERS for the year ended June 30, 2017, 2016 and 2015 were approximately \$473,000, \$504,000 and \$620,000, respectively.

**NOTE 12 - GRANTS**

The School District receives significant financial assistance from federal and state governmental agencies in the form of grants. The disbursement of funds received under these programs generally require compliance with terms and conditions specified in the grant agreements and are subject to audit by the School District's independent auditors and other governmental auditors. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable fund. Based on prior experience, the School District administration believes such disallowance, if any, would be immaterial.

**NOTE 13 - ECONOMIC DEPENDENCY**

The School District received approximately 77% of their General Fund revenue from the Michigan Department of Education. Due to the significance of this revenue source to the School District, the School District is considered to be economically dependent.



HEMLOCK PUBLIC SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2017

**NOTE 14 - LEASE**

The School District was in an agreement to lease a copier through July 2021. The lease expense for the year ended June 30, 2017 was \$2,525.

The annual payments are as follows:

2018	\$	2,700
2019		2,700
2020		2,700
2021		2,700
2022		225
	<u>\$</u>	<u>11,025</u>

**NOTE 15 - JOINT VENTURE**

The School District, Hemlock Semiconductor and Dow Corning Health Care Materials Site are engaged in a partnership for the purpose of developing various educational activities in the school, workplace and community that offers each child an opportunity to attain excellence in his or her chosen educational endeavors. Such activities are categorized as follows:

1. Student oriented activities
2. Shared staff/administration development programs
3. Support of special projects
4. Acquisition of instruction materials, supplies and equipment

A task force represented by members of all the partners determines the direction of the Partnership and its goals. The cash activity of the Partnership is summarized as follows:

Cash balance, beginning of the year	\$	3,283
Revenue		
Contributions		28,382
Expenses		
Scholarships	\$	155
Materials and equipment		10,772
Educational activities		7,342
Other		807
Total expenses		<u>19,076</u>
Cash balance, end of the year	<u>\$</u>	<u>12,589</u>

HEMLOCK PUBLIC SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2017

**NOTE 16 - TAX ABATEMENTS**

Effective for the year ended June 30, 2017 the School District is required to disclose significant tax abatements as required by GASB statement 77 (Tax abatements).

The School District receives reduced property tax revenues as a result of Industrial Facilities Tax exemptions granted by cities, villages and townships. Industrial facility exemptions are intended to promote construction of new industrial facilities, or to rehabilitate historical facilities.

The property taxes abated for all funds by municipality under these programs are as follows:

<u>Municipality</u>	<u>Taxes Abated</u>
Thomas Township	\$ 1,267,838
Swan Creek Township and Richland Township	<u>2,255</u>
	<u><u>\$ 1,270,093</u></u>

The taxes abated for the General Fund operating millage is considered by the State of Michigan when determining the School District's section 22 funding of the State School Aid Act.

**HEMLOCK PUBLIC SCHOOLS**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 17 - UPCOMING ACCOUNTING PRONOUNCEMENT**

Governmental Accounting Standards Board (GASB) Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, was issued by the GASB in June 2015 and will be effective for the School District's 2018 fiscal year. The Statement requires governments that participate in other postemployment benefit plans (OPEB) to report in their statement of net position an OPEB liability. The 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. The School District is in the process of evaluating the financial statement impact of this statement and believes the impact of this statement could be significant.

Governmental Accounting Standards Board (GASB) Statement No. 84, Fiduciary Activities, was issued by GASB in January 2017 and will be effective for the School District's 2020 year end. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities for all state and local governments. The focus on the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Districts with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position.

**NOTE 18 - SUBSEQUENT EVENT**

The School District's School Building and Site Improvement Bonds, Series II (Bond) were approved. The funds were distributed to the School District effective July 6, 2017. The Bond was approved in the amount of \$465,000. The Bond will be repaid over a 5 year period with an interest rate ranging from 1.6% to 2.35%. The payments will be made annually on May 1st starting in 2018. The payment amounts will range from \$85,000 to \$100,000.

HEMLOCK PUBLIC SCHOOLS  
Required Supplemental Information  
Budgetary Comparison Schedule - General Fund  
For the Year Ended June 30, 2017

	Original Budget	Final Amended Budget	Actual	Variances with Final Budget Favorable (Unfavorable)
<u>Revenues</u>				
Local sources				
Property taxes	\$ 1,234,480	\$ 1,334,093	\$ 1,363,816	\$ 29,723
Other local sources	500,000	500,000	531,142	31,142
State sources	8,341,566	8,960,373	8,945,766	(14,607)
Federal sources	520,538	564,060	527,262	(36,798)
Interdistrict and other sources	164,000	189,916	274,363	84,447
Total revenues	<u>10,760,584</u>	<u>11,548,442</u>	<u>11,642,349</u>	<u>93,907</u>
<u>Expenditures</u>				
Instruction:				
Basic programs	4,661,632	5,136,690	5,162,090	(25,400)
Added needs	1,678,123	1,417,288	1,420,022	(2,734)
Support services:				
Pupil	548,866	521,175	494,090	27,085
Instructional staff	295,127	304,637	263,194	41,443
General administrative	331,986	351,895	321,479	30,416
School administrative	637,498	650,861	640,147	10,714
Business services	202,301	220,218	199,136	21,082
Operations and maintenance	1,145,901	1,127,743	1,176,731	(48,988)
Transportation	485,254	456,723	463,965	(7,242)
Information services	337,960	394,190	332,303	61,887
Other	35,916	51,262	47,776	3,486
Community services	176,817	283,346	287,143	(3,797)
Athletics	217,837	236,391	223,783	12,608
Capital outlay	0	22,117	33,812	(11,695)
Total expenditures	<u>10,755,218</u>	<u>11,174,536</u>	<u>11,065,671</u>	<u>108,865</u>
Excess (deficiency) of revenues over expenditures	<u>5,366</u>	<u>373,906</u>	<u>576,678</u>	<u>202,772</u>
<u>Other Financing Sources (Uses)</u>				
Operating transfers out	<u>(34,592)</u>	<u>(22,824)</u>	<u>(2,930)</u>	<u>19,894</u>
Total other financing sources (uses)	<u>(34,592)</u>	<u>(22,824)</u>	<u>(2,930)</u>	<u>19,894</u>
Net change in fund balance	(29,226)	351,082	573,748	222,666
Fund balance - beginning of year	<u>1,091,776</u>	<u>1,091,776</u>	<u>1,091,776</u>	<u>0</u>
Fund balance - end of year	<u>\$ 1,062,550</u>	<u>\$ 1,442,858</u>	<u>\$ 1,665,524</u>	<u>\$ 222,666</u>

**HEMLOCK PUBLIC SCHOOLS**  
**Required Supplemental 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><b>2016</b></u>	<u><b>2015</b></u>	<u><b>2014</b></u>
Reporting unit's proportion of net pension liability (%)	0.06483 %	0.06238 %	0.06479 %
Reporting unit's proportionate share of net pension liability	\$16,175,073	\$15,236,344	\$14,270,093
Reporting unit's covered-employee payroll	\$ 5,541,650	\$ 5,107,037	\$ 5,670,819
Reporting unit's proportionate share of net pension liability as a percentage of its covered-employee payroll	34.26043 %	33.51878 %	39.73919 %
Plan fiduciary net position as a percentage of total pension liability	63.27000 %	62.92000 %	66.15000 %

With the implementation of GASB Statement No. 68 in 2015, the 10 year history will be provided prospectively until a full 10 year history is shown.

**HEMLOCK PUBLIC SCHOOLS**  
**Required Supplemental Information**  
**Schedule of the Reporting Unit's Contributions**  
**Michigan Public School Employees Retirement Plan**  
Last 10 Reporting Unit Fiscal Years (Amounts were determined as of 6/30 of each fiscal year)

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contributions	\$ 1,501,025	\$ 1,561,373	\$ 1,346,626
Contributions in relation to statutorily required contributions*	<u>1,501,025</u>	<u>1,561,373</u>	<u>1,346,626</u>
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Reporting unit's covered-employee payroll	\$ 5,395,962	\$ 5,214,001	\$ 5,430,881
Contributions as a percentage of covered-employee payroll	27.82 %	29.95 %	24.80 %

\*Contributions in relation to statutorily required contributions are the contributions a reporting unit actually made to the System, as distinct from the statutorily required contributions.

With the implementation of GASB Statement No. 68 in 2015, the 10 year history will be provided prospectively until a full 10 year history is shown.

HEMLOCK PUBLIC SCHOOLS  
Notes to Required Supplementary Information  
For the Year Ended June 30, 2017

**Changes of benefit terms:** There were no changes of benefit terms in 2017.

**Changes of assumptions:** Assumption changes are 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.

**HEMLOCK PUBLIC SCHOOLS**  
**Other Supplemental Information**  
**Balance Sheet**  
**Nonmajor Governmental Fund**  
June 30, 2017

		Special Revenue Fund	
		Food Service	
<u>Assets</u>			
Cash and investments	\$	209,149	
Receivables - net:			
Accounts receivable		177	
Inventories		4,635	
Total assets	\$	213,961	
<u>Liabilities and Fund Balance</u>			
<u>Liabilities</u>			
Due to other funds	\$	163,781	
Total liabilities		163,781	
<u>Fund Balance</u>			
Non-spendable - inventory		4,635	
Unassigned		45,545	
Total fund balance		50,180	
	\$	213,961	



**HEMLOCK PUBLIC SCHOOLS**  
**Other Supplemental Information**  
**Statement of Revenues, Expenditures**  
**and Changes in Fund Balance - Nonmajor Governmental Fund**  
**For the Year Ended June 30, 2017**

	Special Revenue Fund
	Food Service
<u>Revenues</u>	
Local sources	
Other local sources	\$ 163,436
State sources	15,541
Federal sources	220,620
Total revenues	399,597
<u>Expenditures</u>	
Current:	
Food services	371,419
Total expenditures	371,419
Excess (deficiency) of revenues over expenditures	28,178
<u>Other Financing Sources (Uses)</u>	
Operating transfers in	2,930
Net change in fund balance	31,108
Fund balance - beginning of year	19,072
Fund balance - end of year	\$ 50,180

HEMLOCK PUBLIC SCHOOLS  
 Other Supplemental Information  
 Schedule of Bonded Indebtedness - 2013 Issue  
 For the Year Ended June 30, 2017

PURPOSE

The bonds were issued for the purpose of remodeling, equipping and re-equipping and furnishing and refurbishing school district buildings; erecting an addition to the high school building; acquiring and installing instructional technology in school buildings; purchasing school buses; and developing, improving and equipping playgrounds, athletic facilities, athletic fields and sites.

DATE OF ISSUE

June 30, 2013

INTEREST PAYABLE

May 1 and November 1 of each year

AMOUNT OF ISSUE

\$ 7,500,000

AMOUNT OF REDEEMED

During prior years	\$ 265,000	
During current year	150,000	415,000

BALANCE OUTSTANDING - June 30, 2017

\$ 7,085,000

<u>Fiscal Year</u>	<u>Interest Rate</u>	<u>Requirements</u>		
		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	2.00%	\$ 150,000	\$ 293,300	\$ 443,300
2019	2.00%	170,000	290,300	460,300
2020	3.00%	180,000	285,200	465,200
2021	3.00%	190,000	279,800	469,800
2022	3.00%	655,000	274,100	929,100
2023	4.00%	1,830,000	247,900	2,077,900
2024	5.00%	1,915,000	156,400	2,071,400
2025	4.00%	1,995,000	79,800	2,074,800
		\$ 7,085,000	\$ 1,906,800	\$ 8,991,800

**HEMLOCK PUBLIC SCHOOLS**  
**Other Supplemental Information**  
**Schedule of Bonded Indebtedness - 2015 Issue**  
**For the Year Ended June 30, 2017**

<u>PURPOSE</u>	The 2015 refunding bonds were issued for the purpose of improvement of school facilities.		
<u>DATE OF ISSUE</u>	March 10, 2015		
<u>INTEREST PAYABLE</u>	May 1 and November 1 of each year		
<u>AMOUNT OF ISSUE</u>			\$ 7,945,000
<u>AMOUNT OF REDEEMED</u>			
	During prior years	\$ 1,075,000	
	During current year	<u>1,115,000</u>	<u>2,190,000</u>
<u>BALANCE OUTSTANDING - June 30, 2017</u>			<u>\$ 5,755,000</u>

<u>Fiscal Year</u>	<u>Interest Rate</u>	<u>Requirements</u>		
		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	4.00%	\$ 1,160,000	\$ 230,200	\$ 1,390,200
2019	4.00%	1,195,000	183,800	1,378,800
2020	4.00%	1,240,000	136,000	1,376,000
2021	4.00%	1,285,000	86,400	1,371,400
2022	4.00%	<u>875,000</u>	<u>35,000</u>	<u>910,000</u>
		<u>\$ 5,755,000</u>	<u>\$ 671,400</u>	<u>\$ 6,426,400</u>



# WEINLANDER FITZHUGH

CERTIFIED PUBLIC ACCOUNTANTS  
& CONSULTANTS

## 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

September 28, 2017

Board of Education  
Hemlock Public Schools  
Hemlock, Michigan

We have audited, in accordance with U.S. generally accepted auditing standards 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 Hemlock Public Schools (School District), as of and for the year ended June 30, 2017 and the related notes to the financial statements, which collectively comprise Hemlock Public Schools' basic financial statements and have issued our report thereon dated September 28, 2017.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Hemlock Public 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 Hemlock Public Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of Hemlock Public 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 School District'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.



Board of Education  
Hemlock Public Schools  
September 28, 2017

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Hemlock Public 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 School District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Weinlander Fitzhugh*

HEMLOCK PUBLIC SCHOOLS  
Summary Schedule of Prior Year Findings  
For the Year Ended June 30, 2017

**2016-001**

Audit Finding

The School District did not complete timely bank reconciliations for several months of the fiscal year.

Corrective Action Taken

The School District conducted a third party review of all business protocols and procedures to ensure an improved preparedness for reporting, budgeting and the year-end audit.



# WEINLANDER FITZHUGH

CERTIFIED PUBLIC ACCOUNTANTS  
& CONSULTANTS

September 28, 2017

Board of Education  
Hemlock Public Schools  
Hemlock, Michigan

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Hemlock Public Schools (School District) for the year ended June 30, 2017. Professional standards require that we provide you with information about our responsibilities under U.S. generally accepted auditing standards and Government Auditing Standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 23, 2017. Professional standards also require that we communicate to you the following information related to our audit.

## **Significant Audit Findings**

### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Hemlock Public 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 2017. We noted no transactions entered into by the School District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Estimates have been used to calculate the unfunded pension liability.

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

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

### *Difficulties Encountered in Performing the Audit*

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



Board of Education  
Hemlock Public Schools  
September 28, 2017  
Page 2

### *Corrected and Uncorrected Misstatements*

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

### *Disagreements with Management*

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

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated September 28, 2017.

### *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 Hemlock Public Schools' financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Audit Findings or Issues*

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

### **Other Matters**

We applied certain limited procedures to budgetary comparison schedule for the General Fund, schedule of reporting unit's proportionate share on the net pension liability, schedule of the reporting unit's contributions and notes to the required supplemental information, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.





# WEINLANDER FITZHUGH

Board of Education  
Hemlock Public Schools  
September 28, 2017  
Page 3

We were engaged to report on the schedule of expenditures of federal awards, combining nonmajor governmental fund financial statements and schedules of bonded indebtedness, which accompany the financial statements but are not RSI. With respect to this 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 U.S. generally accepted accounting principles, 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 supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

## **Restriction on Use**

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

Very truly yours

*Weinlander Fitzhugh*