



WEINLANDER FITZHUGH

HEMLOCK PUBLIC SCHOOLS
HEMLOCK, MICHIGAN
FINANCIAL STATEMENTS
JUNE 30, 2016

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WEINLANDER FITZHUGH

CERTIFIED PUBLIC ACCOUNTANTS
& CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

September 27, 2016

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, 2016 and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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, 2016 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 27, 2016

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 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 schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S.

The nonmajor fund financial statements, schedules of bonded indebtedness and the schedule of expenditures of federal awards 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 nonmajor fund financial statements, schedules of bonded indebtedness and the schedule of expenditures of federal awards 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 27, 2016, 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, 2016

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, 2016.

Financial Highlights

The School District's net position increased by \$498,526 or 4%. Program revenues were \$2,269,675 or 18% of total revenues, and general revenues were \$10,646,346 or 82%.

The General Fund reported a positive fund balance of \$1,091,776. The Debt Service Fund reported a positive fund balance of \$343,798.

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, Capital Projects 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, 2016

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, 2016

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, 2016 and 2015:

Exhibit A	<u>Governmental Activities</u>	
	<u>2016</u>	<u>2015</u>
Assets		
Current and other assets	\$ 3,597,055	\$ 3,373,789
Capital assets - net of accumulated depreciation	14,551,375	15,527,071
Total assets	<u>18,148,430</u>	<u>18,900,860</u>
Deferred Outflows of Resources		
Deferred loss on refunding	143,787	167,752
Related to pensions	1,805,942	1,078,370
Total deferred outflows of resources	<u>1,949,729</u>	<u>1,246,122</u>
Liabilities		
Current liabilities	3,464,426	3,456,340
Long-term liabilities	29,076,739	29,494,029
Total liabilities	<u>32,541,165</u>	<u>32,950,369</u>
Deferred Inflows of Resources		
Related to pensions	912,884	1,577,565
Net Position		
Net investment in capital assets	(476,680)	(852,408)
Restricted	296,781	469,083
Unrestricted	(13,175,991)	(13,997,627)
Total net position	<u>\$ (13,355,890)</u>	<u>\$ (14,380,952)</u>

The analysis on the previous page focuses on net position (see Exhibit A). The School District's net position of governmental activities was \$(13,355,890) at June 30, 2016. Investment in property and equipment, net of related debt totaling \$(476,680), 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 \$(13,175,991) 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, 2016

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 \$15,236,344 for 2016 and \$14,270,093 for 2015.

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, 2016 and 2015.

Exhibit B	<u>Governmental Activities</u>	
	<u>2016</u>	<u>2015</u>
Revenues		
Program revenue:		
Charges for services	\$ 546,078	\$ 500,016
Grants and categoricals	1,723,597	1,792,554
General revenue:		
Property taxes	3,146,710	3,104,073
State aid	7,424,967	7,313,145
Other	74,669	70,965
Total revenues	<u>12,916,021</u>	<u>12,780,753</u>
Function/Program Expenses		
Instruction	6,334,526	6,767,701
Support services	3,670,679	4,173,830
Community services	239,563	164,093
Food services	363,148	366,231
Athletics	224,920	225,348
Capital outlay	22,711	154,066
Interest on long-term debt	521,947	373,095
Depreciation (unallocated)	1,040,001	1,021,581
Issuance costs	0	117,929
Total expenses	<u>12,417,495</u>	<u>13,363,874</u>
Change in Net Position	<u>\$ 498,526</u>	<u>\$ (583,121)</u>

As reported in the statement of activities, the cost of all of our *governmental* activities this year was \$12,417,495. Certain activities were partially funded from those who benefited from the programs, \$546,078, or by the other governments and organizations that subsidized certain programs with grants and categoricals of \$1,723,597. We paid for the remaining "public benefit" portion of our governmental activities with \$3,146,710 in taxes, \$7,424,967 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 \$498,526. The major reason was increased revenues of approximately \$54,000 attributable mostly to income from other activities received in the current year. 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, 2016

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.

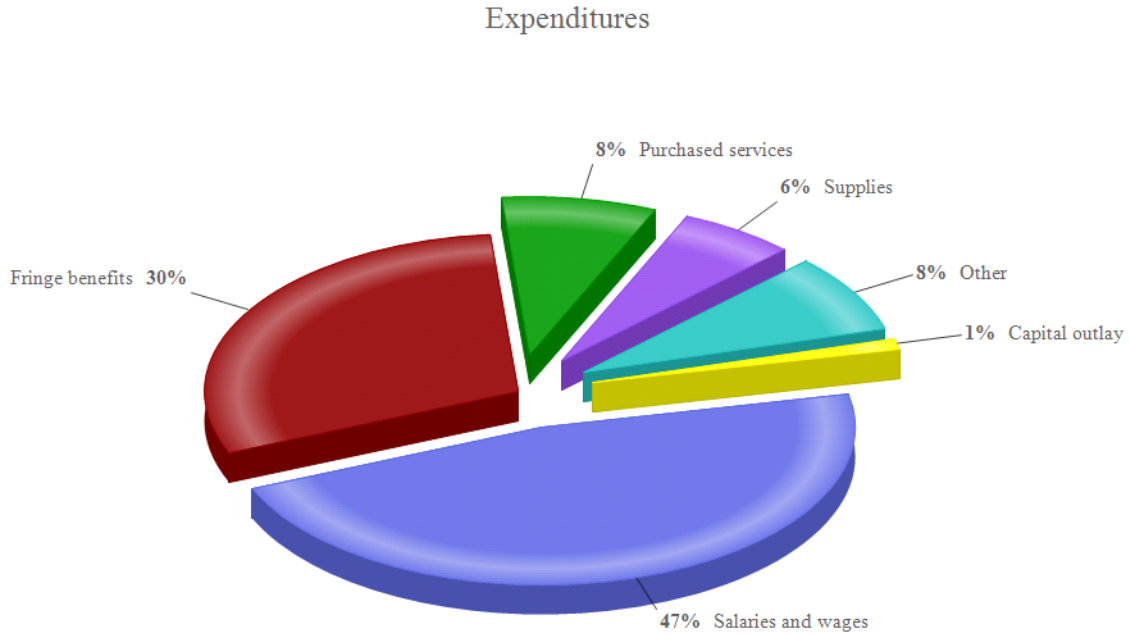
The School District's governmental funds reported a combined fund balance of \$1,454,646, which is above last year's total of \$1,185,882. The schedule below indicates the fund balance and the total change in fund balances as of June 30, 2016 and 2015.

	<u>Fund Balance</u> <u>6/30/2016</u>	<u>Fund Balance</u> <u>6/30/2015</u>	<u>Increase</u> <u>(Decrease)</u>
General	\$ 1,091,776	\$ 665,731	\$ 426,045
Debt Service	343,798	456,181	(112,383)
Capital Projects	0	36,674	(36,674)
Special Revenue	19,072	27,296	(8,224)
	<u>\$ 1,454,646</u>	<u>\$ 1,185,882</u>	<u>\$ 268,764</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 Capital Projects Fund decreased due to the first phase of bond completion.
- Our Debt Service Funds decreased mainly due to decreased interest due as principle is paid down.
- Our Special Revenue Funds decreased due to lower revenues as a result of decreased participation rates in our food service program.

HEMLOCK PUBLIC SCHOOLS
Management's Discussion & Analysis
For the Year Ended June 30, 2016

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	2016	2015
Salaries and wages	\$ 5,246,669	\$ 5,361,021
Fringe benefits	3,255,374	3,196,755
Purchased services	815,286	711,285
Supplies	609,241	607,971
Capital outlay	41,838	97,376
Other	839,638	717,570
Total	\$ 10,808,046	\$ 10,691,978

Expenditures have increased by \$116,068 from the prior year mainly due to increasing costs as a result of our expanded childcare programs.

HEMLOCK PUBLIC SCHOOLS
Management's Discussion & Analysis
For the Year Ended June 30, 2016

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 \$535,858. Budgeted revenues were decreased in property taxes due to a slight decline in home values. The increase in local sources is due to expanding our child-care and latchkey programs. The increase in state sources is due to an enrollment increase.
- Budgeted expenditures were increased by \$417,765 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 \$57,226 higher along with expenditures \$456,564 lower in comparison to the final operating budget.

Capital Assets

At June 30, 2016, the School District had \$14,551,375 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 6% from last year.

	2016	2015
Land	\$ 688,500	\$ 688,500
Buildings and improvements	30,380,836	30,316,531
Buses and other vehicles	860,508	860,508
Furniture and equipment	1,675,342	1,731,886
Total capital assets	33,605,186	33,597,425
Less accumulated depreciation	19,053,811	18,070,354
Net capital assets	\$ 14,551,375	\$ 15,527,071

This year's additions of \$64,305 were for an athletic pavilion and athletic complex. The additions were made possible, in part, with the remaining 2013 bond funds.

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, 2016

Debt

At the end of this year, the School District had \$14,105,000 in bonds outstanding versus \$15,320,000 in the previous year.

	2016	2015
2013 Improvement Bonds	\$ 7,235,000	\$ 7,375,000
2015 Refunding Bonds	6,870,000	7,945,000
	\$ 14,105,000	\$ 15,320,000

Factors Expected to have an Effect on Future Operations

Our elected Board and administration consider many factors when setting the School District's 2017 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 2017 fiscal year budget was adopted in June 2016, based on an estimate of students that will be enrolled in September 2016. Under state law, the School District cannot access additional property tax revenue for general operations. As a result, district funding is heavily dependent on the state's ability to fund local school operations. Based on early enrollment data at the start of the 2016 - 2017 school year, we anticipate that the fall student count will increase from estimates used in creating the 2017 fiscal year budget. Once the final student count and related per pupil funding is validated, state law requires the School District to amend the budget if actual district resources are not sufficient to fund original appropriations.

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 2016 - 2017.

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, 2016

	Governmental Activities
<u>Assets</u>	
Cash and cash equivalents	\$ 1,522,209
Receivables - net:	
Accounts receivable	3,599
Due from other governmental units	2,038,715
Inventories	6,703
Prepaid expenses	25,829
Capital assets less accumulated depreciation \$19,053,811	14,551,375
Total assets	18,148,430
<u>Deferred Outflows of Resources</u>	
Deferred loss on refunding	143,787
Related to pensions	1,805,942
Total Deferred Outflows of Resources	1,949,729
<u>Liabilities</u>	
Accounts payable	27,039
Accrued payroll and other liabilities	1,122,008
State aid anticipation note payable	910,531
Unearned revenue	82,831
Accrued interest payable	47,017
Long-term liabilities:	
Due within one year	1,275,000
Due in more than one year	13,840,395
Net pension liability	15,236,344
Total liabilities	32,541,165
<u>Deferred Inflows of Resources</u>	
Related to pensions	912,884
<u>Net Position</u>	
Net investment in capital assets	(476,680)
Restricted for debt service	296,781
Unrestricted	(13,175,991)
Total net position	\$ (13,355,890)

See accompanying notes to financial statements.

HEMLOCK PUBLIC SCHOOLS
Statement of Activities
For the Year Ended June 30, 2016

	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	\$ 6,334,526	\$ 200,119	\$ 1,426,741	\$ (4,707,666)
Support services	3,670,679	0	75,500	(3,595,179)
Community services	239,563	126,647	0	(112,916)
Food services	363,148	123,606	221,356	(18,186)
Athletics	224,920	95,706	0	(129,214)
Capital outlay	22,711	0	0	(22,711)
Interest on long-term debt	521,947	0	0	(521,947)
Depreciation (unallocated)	1,040,001	0	0	(1,040,001)
	<u>\$ 12,417,495</u>	<u>\$ 546,078</u>	<u>\$ 1,723,597</u>	<u>(10,147,820)</u>
Total governmental activities				
General revenues:				
Taxes:				
Property taxes, levied for general purposes				1,382,263
Property taxes, levied for debt services				1,764,447
State aid				7,424,967
Interest and investment earnings				919
Other				73,750
				<u>10,646,346</u>
Total general revenues				
Change in net position				<u>498,526</u>
Net position - beginning of year				(14,380,952)
Prior period adjustment				<u>526,536</u>
Net position - beginning of year, restated				<u>(13,854,416)</u>
Net position - end of year				<u>\$ (13,355,890)</u>

See accompanying notes to financial statements.

HEMLOCK PUBLIC SCHOOLS
Governmental Funds
Balance Sheet
June 30, 2016

	General	Debt Service	Other Nonmajor Governmental Funds	Total
<u>Assets</u>				
Cash and cash equivalents	\$ 941,783	\$ 479,424	\$ 101,002	\$ 1,522,209
Receivables - net:				
Accounts receivable	1,146	0	177	1,323
Due from other funds	247,076	0	23,224	270,300
Due from other governmental units	2,038,715	0	0	2,038,715
Inventories	2,427	0	4,276	6,703
Prepaid expenditures	25,829	0	0	25,829
	<u>\$ 3,256,976</u>	<u>\$ 479,424</u>	<u>\$ 128,679</u>	<u>\$ 3,865,079</u>
Total assets				
<u>Liabilities and Fund Balance</u>				
<u>Liabilities</u>				
Accounts payable	\$ 27,039	\$ 0	\$ 0	\$ 27,039
Due to other funds	23,224	135,626	109,174	268,024
Accrued payroll and other liabilities	1,121,575	0	433	1,122,008
State aid anticipation note payable	910,531	0	0	910,531
Unearned revenue	82,831	0	0	82,831
	<u>2,165,200</u>	<u>135,626</u>	<u>109,607</u>	<u>2,410,433</u>
Total liabilities				
<u>Fund Balance</u>				
Nonspendable - inventory	2,427	0	4,276	6,703
Nonspendable - prepaid	25,829	0	0	25,829
Restricted for debt service	0	343,798	0	343,798
Restricted for food service	0	0	14,796	14,796
Unassigned	1,063,520	0	0	1,063,520
	<u>1,091,776</u>	<u>343,798</u>	<u>19,072</u>	<u>1,454,646</u>
Total fund balance				
Total liabilities and fund balance	<u>\$ 3,256,976</u>	<u>\$ 479,424</u>	<u>\$ 128,679</u>	<u>\$ 3,865,079</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, 2016

Total fund balance - governmental funds	\$ 1,454,646
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	33,605,186
Accumulated depreciation	(19,053,811)
Deferred outflows used in governmental activities are not financial resources and therefore are not reported in governmental funds:	
Deferred loss on refunding	143,787
Related to pensions	1,805,942
Long-term liabilities are not due and payable in the current period and are not reported in the funds:	
Bonds payable	(14,105,000)
Compensated absences	(67,340)
Early retirement incentive	(20,000)
Bond premium, net of amortization	(923,055)
Net pension liability	(15,236,344)
Accrued interest payable is included as a liability in governmental activities	(47,017)
Deferred inflows used in governmental activities are not recognized as current resources and therefore are not reported in governmental funds:	
Related to pensions	<u>(912,884)</u>
Total net position - governmental activities	<u><u>\$ (13,355,890)</u></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, 2016

	<u>General</u>	<u>Debt Service</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
<u>Revenues</u>				
Local sources				
Property taxes	\$ 1,382,263	\$ 1,764,447	\$ 0	\$ 3,146,710
Other local sources	404,119	592	133,590	538,301
State sources	8,689,841	0	13,597	8,703,438
Federal sources	570,403	0	207,758	778,161
Interdistrict and other sources	187,465	0	0	187,465
Total revenues	<u>11,234,091</u>	<u>1,765,039</u>	<u>354,945</u>	<u>13,354,075</u>
<u>Expenditures</u>				
Current:				
Instruction	6,541,868	0	0	6,541,868
Support services	3,761,875	0	0	3,761,875
Community services	249,563	0	0	249,563
Athletics	224,920	0	0	224,920
Capital outlay	29,820	0	0	29,820
Food services	0	0	363,147	363,147
Principal	0	1,215,000	0	1,215,000
Interest and other	0	662,422	0	662,422
Capital outlay	0	0	36,696	36,696
Total expenditures	<u>10,808,046</u>	<u>1,877,422</u>	<u>399,843</u>	<u>13,085,311</u>
Net change in fund balance	426,045	(112,383)	(44,898)	268,764
Fund balance - beginning of year	<u>665,731</u>	<u>456,181</u>	<u>63,970</u>	<u>1,185,882</u>
Fund balance - end of year	<u>\$ 1,091,776</u>	<u>\$ 343,798</u>	<u>\$ 19,072</u>	<u>\$ 1,454,646</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, 2016

Net change in fund balance - total governmental funds	\$ 268,764
<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	(1,040,001)
Capital outlay	64,305
<p>Long-term liabilities are not due and payable in the current period and are not reported in the funds:</p>	
Capital lease payments	2,365
<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	1,215,000
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>	
	(5,518)
<p>Decreases in accrued interest are reported as an addition in expenses on the Statement of Activities</p>	
	4,051
<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	(100,534)
Early retirement incentive	(20,000)
Change in net position of governmental activities	<u>\$ 498,526</u>

See accompanying notes to financial statements.

HEMLOCK PUBLIC SCHOOLS
Fiduciary Funds
Statement of Fiduciary Net Position
June 30, 2016

	<u>Agency Funds</u>	<u>Private Purpose Trusts</u>
<u>Assets</u>		
Cash and investments	\$ <u>233,594</u>	\$ <u>50,373</u>
<u>Liabilities</u>		
Due to student groups	\$ 233,594	0
Due to other funds	<u>0</u>	<u>2,276</u>
Total liabilities	<u>\$ 233,594</u>	<u>\$ 2,276</u>
Held in trust for scholarships		<u>\$ 48,097</u>

HEMLOCK PUBLIC SCHOOLS
Fiduciary Funds
Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2016

		<u>Private Purpose Trusts</u>
<u>Additions</u>		
Contributions and investment income		\$ 1,532
Transfers		<u>2,946</u>
Total revenues		<u>4,478</u>
<u>Deductions</u>		
Scholarships		1,000
Transfers		<u>15,346</u>
Total expenditures		<u>16,346</u>
Change in net position		(11,868)
Net position - beginning of year		<u>59,965</u>
Net position - end of year		<u>\$ 48,097</u>

See accompanying notes to financial statements.

HEMLOCK PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2016

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, 2016

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, 2016

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, 2016

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 financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The School District has two items that qualify for reporting in this category. 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. A deferred outflow is recognized for pension contributions made after the plans measurement date, but before the fiscal year end. The amount is amortized in the plan year in which it applies.

HEMLOCK PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Inflows - In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The School District has one item that qualifies for reporting in this category. It is future resources yet to be recognized in relation to the pension actuarial calculation. These future resources arise from differences in the estimates used by the actuary to calculate the pension liability and the actual results. The amounts are amortized over a period determined by the actuary.

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, 2016, 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, 2016, the foundation allowance was based on the average pupil membership counts taken in February of 2015 and September of 2015.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period (currently the fiscal year) and is funded through payments from October 2015 - August 2016. The local revenue is recognized as outlined in Note 1. Amounts receivable from the State of Michigan at June 30, 2016 relating to state aid is \$1,568,947.

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, 2016

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, 2016

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	\$ 1,522,209	\$ 283,967	\$ 1,806,176

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

Deposits (checking and savings accounts, certificates of deposit)	\$ 1,805,872
Petty cash and cash on hand	304
Total	\$ 1,806,176

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, 2016, 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, 2016, \$1,027,253 of the School District's bank balance of \$1,919,082 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, prepayments speeds, credit risk and others.

HEMLOCK PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2016

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, 2015</u>	<u>Additions</u>	<u>Disposals and</u> <u>Adjustments</u>	<u>Balance</u> <u>June 30, 2016</u>
Assets not being depreciated:				
Land	\$ 688,500	\$ 0	\$ 0	\$ 688,500
Capital assets being depreciated:				
Buildings and improvements	30,316,531	64,305	0	30,380,836
Buses and other vehicles	860,508	0	0	860,508
Furniture and equipment	1,731,886	0	(56,544)	1,675,342
Subtotal	<u>32,908,925</u>	<u>64,305</u>	<u>(56,544)</u>	<u>32,916,686</u>
Accumulated depreciation:				
Buildings and improvements	16,192,939	939,980	0	17,132,919
Buses and other vehicles	609,170	40,756	0	649,926
Furniture and equipment	1,268,245	59,265	(56,544)	1,270,966
Subtotal	<u>18,070,354</u>	<u>1,040,001</u>	<u>(56,544)</u>	<u>19,053,811</u>
Net capital assets being depreciated	<u>14,838,571</u>	<u>(975,696)</u>	<u>0</u>	<u>13,862,875</u>
Net capital assets	<u>\$ 15,527,071</u>	<u>\$ (975,696)</u>	<u>\$ 0</u>	<u>\$ 14,551,375</u>

Depreciation expense for fiscal year ended June 30, 2016 was \$1,040,001. 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, 2016

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

A summary of interfund receivable and payable balances at June 30, 2016 are as follows:

		Payables				
		General	School Lunch	Debt Service	Private Purpose Trusts	Total
Receivables	General	\$ 0	\$ 109,174	\$ 135,626	\$ 2,276	\$ 247,076
	Food Service	23,224	0	0	0	23,224
		\$ 23,224	\$ 109,174	\$ 135,626	\$ 2,276	\$ 270,300

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.

There were no interfund transfers during the year.

NOTE 6 - RECEIVABLES

Receivables at June 30, 2016 consist of accounts (fees) and intergovernmental grants.

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

State aid and grants	\$ 1,568,947
Federal grants	7,618
ISD	367,284
Local grants	94,866
	\$ 2,038,715

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 \$82,831.

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.

Beginning Balance	Issued	Redeemed	Ending Balance
\$ 914,286	\$ 1,600,000	\$ 1,603,755	\$ 910,531

HEMLOCK PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2016

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, 2016:

	Balance <u>June 30, 2015</u>	<u>Additions</u>	Retirements <u>and Payments</u>	Balance <u>June 30, 2016</u>	Amount Due Within One <u>Year</u>
Bonds	\$ 15,320,000	\$ 0	\$ 1,215,000	\$ 14,105,000	\$ 1,265,000
Compensated absences	61,822	5,518	0	67,340	0
Capital lease obligations	2,365	0	2,365	0	0
Retirement incentive	<u>0</u>	<u>20,000</u>	<u>0</u>	<u>20,000</u>	<u>10,000</u>
	<u>\$ 15,384,187</u>	<u>\$ 25,518</u>	<u>\$ 1,217,365</u>	14,192,340	1,275,000
Bond premium				<u>923,055</u>	<u>0</u>
				<u>\$ 15,115,395</u>	<u>\$ 1,275,000</u>

Bonds payable at June 30, 2016 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%	\$ 7,235,000
\$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>6,870,000</u>
Total Bonded Debt	<u>\$ 14,105,000</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, 2016, the amount of \$67,340 has been recorded in the district-wide financial statements.

HEMLOCK PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2016

NOTE 9 - LONG-TERM DEBT (CONTINUED)

The School District defeased the outstanding debt listed below by placing the proceeds of new debt in an irrevocable trust to provide for the future debt service payments on the callable portions of the old debt. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the School District's basic financial statements.

	As of June 30, 2016 the amount of debt considered defeased
Serial bond issue, 1996	\$ 2,295,000
Serial bond issue, 2001	5,495,000
Serial bond issue, 2005 Series I	1,890,000
Serial bond issue, 2005 Series II	5,575,000
	\$ 15,255,000

The annual requirements to amortize bonds outstanding as of June 30, 2016, including interest payments are as follows:

Year Ended June 30	Principal	Interest	Total
2017	\$ 1,265,000	\$ 571,100	\$ 1,836,100
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 - 2026	7,270,000	793,200	8,063,200
	\$ 14,105,000	\$ 3,149,300	\$ 17,254,300

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 AmeriPlan, in which the District maintains a partially self-funded plan for employee benefits covering health, dental and vision.

HEMLOCK PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2016

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>.

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, 2016

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, any age with 30 years credited service; or age 60 with 10 years credited service; or age 60 with 5 years of credited service provided member worked through 60th birthday and has credited service in each of the last 5 years. For Pension Plus 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, 2016

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:

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

The School District's pension contributions for the year ended June 30, 2016 were equal to the required contribution total. Pension contributions were approximately \$2,020,000, with \$1,561,000 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.

HEMLOCK PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2016

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, 2016, the School District reported a liability of \$15,236,344 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2014 and rolled-forward using generally accepted actuarial procedures. The 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, 2015 and 2014, the School District's proportion was 0.06238 and 0.06479 percent.

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

MPERS (Plan) Net Pension Liability - As of September 30, 2014:

Total Pension Liability	\$	65,160,887,000
Plan Fiduciary Net Position	\$	43,134,384,000
Net Pension Liability	\$	22,026,503,000
Proportionate share		0.06479 %
Net Pension liability for the School District	\$	14,270,093

HEMLOCK PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2016

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, 2016, the School District recognized pension expense of approximately \$1,002,000. 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, 69.45%, is considered part of the statutorily required contribution to the plan and 30.55% for OPEB. The amount of the section 147c revenue that relates to the statutorily required contribution was approximately \$414,000 and has been recorded as a deferred inflow of resources.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred (Inflows) of Resources</u>
Differences between expected and actual experience	\$ 0	\$ (50,467)
Net difference between projected and actual earnings on pension plan investments	77,769	0
Changes in Assumptions	375,151	0
Changes in proportion and differences between employer contributions and proportionate share of contributions	28,864	(448,327)
Unearned revenue related to pension portion of section 147 c	0	(414,090)
Reporting Unit contributions subsequent to the measurement date	<u>1,324,158</u>	<u>0</u>
Total	<u>\$ 1,805,942</u>	<u>\$ (912,884)</u>

\$1,324,158, 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, 2017.

HEMLOCK PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2016

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:

Year Ended June 30	Amount
2017	\$ (70,131)
2018	(70,131)
2019	(90,472)
2020	213,724
	<u>\$ (17,010)</u>

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, 2014. 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, 2016

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:

Investment Category	Target Allocation*	Long-Term Expected Real Rate of Return*
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%
Total	100.0%	

*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:

	1% Lower (6.0-7.0%)	Discount Rate (7.0-8.0%)	1% Higher (8.0-9.0%)
Reporting Unit's proportionate share of the net pension liability	\$19,643,553	\$15,236,344	\$11,520,886

HEMLOCK PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2016

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 2014 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 December 1, 2012.

HEMLOCK PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2016

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

The School District postemployment healthcare contributions to MPSERS for the year ended June 30, 2016, 2015 and 2014 were approximately \$504,224, \$619,560 and \$394,747.

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.

NOTE 14 - LEASE

The School District was in an agreement to lease seven copiers through August 2015. The lease expense for the year ended June 30, 2016 was \$2,380.

HEMLOCK PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2016

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	\$	13,531
Revenue		
Contributions		28,223
Expenses		
Materials and equipment	\$	27,619
Educational activities		7,546
Other		3,306
Total expenses		38,471
Cash balance, end of the year	\$	3,283

HEMLOCK PUBLIC SCHOOLS
Notes to Financial Statements
For the Year Ended June 30, 2016

NOTE 16 - 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. 77, Tax Abatement Disclosures, was issued by the GASB in August 2015 and will be effective for the School District's 2017 fiscal year. The Statement requires the School District to disclose agreements of other governments that affect the School District's revenue. The School District is in the process of evaluating the impact of this standard on the financial statements when adopted.

NOTE 17 - PRIOR PERIOD ADJUSTMENT

A prior period adjustment has been reflected in the financial statements to adjust beginning net positions in the amount of \$526,536 for deferred outflows of resources related to pensions not recorded in the prior year.

HEMLOCK PUBLIC SCHOOLS
Required Supplemental Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2016

	Original Budget	Final Amended Budget	Actual	Variances with Final Budget Favorable (Unfavorable)
<u>Revenues</u>				
Local sources				
Property taxes	\$ 1,403,000	\$ 1,373,303	\$ 1,382,263	\$ 8,960
Other local sources	266,500	327,035	404,119	77,084
State sources	8,307,975	8,702,190	8,689,841	(12,349)
Federal sources	500,732	550,337	570,403	20,066
Interdistrict and other sources	162,800	224,000	187,465	(36,535)
Total revenues	<u>10,641,007</u>	<u>11,176,865</u>	<u>11,234,091</u>	<u>57,226</u>
<u>Expenditures</u>				
Instruction:				
Basic programs	4,789,717	4,856,810	4,806,825	49,985
Added needs	1,640,394	1,804,598	1,735,043	69,555
Support services:				
Pupil	570,952	568,859	528,339	40,520
Instructional staff	305,094	284,638	256,384	28,254
General administrative	314,139	339,189	297,059	42,130
School administrative	665,499	643,130	578,646	64,484
Business services	194,936	209,168	160,830	48,338
Operations and maintenance	1,152,301	1,180,154	1,106,529	73,625
Transportation	499,759	486,263	458,350	27,913
Information services	330,325	340,811	311,922	28,889
Other	35,884	34,000	63,816	(29,816)
Community services	128,818	242,518	249,563	(7,045)
Athletics	219,027	234,843	224,920	9,923
Capital outlay	0	39,629	29,820	9,809
Total expenditures	<u>10,846,845</u>	<u>11,264,610</u>	<u>10,808,046</u>	<u>456,564</u>
Excess (deficiency) of revenues over expenditures	<u>(205,838)</u>	<u>(87,745)</u>	<u>426,045</u>	<u>513,790</u>
<u>Other Financing Sources (Uses)</u>				
Operating transfers out	<u>(7,300)</u>	<u>(9,800)</u>	<u>0</u>	<u>9,800</u>
Total other financing sources (uses)	<u>(7,300)</u>	<u>(9,800)</u>	<u>0</u>	<u>9,800</u>
Net change in fund balance	(213,138)	(97,545)	426,045	523,590
Fund balance - beginning of year	<u>665,731</u>	<u>665,731</u>	<u>665,731</u>	<u>0</u>
Fund balance - end of year	<u>\$ 452,593</u>	<u>\$ 568,186</u>	<u>\$ 1,091,776</u>	<u>\$ 523,590</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>2015</u>	<u>2014</u>
Reporting unit's proportion of net pension liability (%)	0.06238 %	0.06479 %
Reporting unit's proportionate share of net pension liability	\$ 15,236,344	\$ 14,270,093
Reporting unit's covered-employee payroll	\$ 5,107,037	\$ 5,670,819
Reporting unit's proportionate share of net pension liability as a percentage of its covered-employee payroll	33.51878 %	39.73919 %
Plan fiduciary net position as a percentage of total pension liability	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>2016</u>	<u>2015</u>
Statutorily required contributions	\$ 1,561,373	\$ 1,346,626
Contributions in relation to statutorily required contributions*	<u>1,561,373</u>	<u>1,346,626</u>
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>
Reporting unit's covered-employee payroll	\$ 5,214,001	\$ 5,430,881
Contributions as a percentage of covered-employee payroll	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, 2016

Changes of benefit terms: There were no changes of benefit terms in 2016.

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, 2016

	<u>Special Revenue Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
	<u>Food Service</u>		
<u>Assets</u>			
Cash and investments	\$ 101,002	\$ 0	\$ 101,002
Receivables - net:			
Taxes	177	0	177
Due from other funds	23,224	0	23,224
Inventories	<u>4,276</u>	<u>0</u>	<u>4,276</u>
Total assets	<u>\$ 128,679</u>	<u>\$ 0</u>	<u>\$ 128,679</u>
<u>Liabilities and Fund Balance</u>			
<u>Liabilities</u>			
Due to other funds	\$ 109,174	\$ 0	\$ 109,174
Accrued payroll and other liabilities	<u>433</u>	<u>0</u>	<u>433</u>
Total liabilities	<u>109,607</u>	<u>0</u>	<u>109,607</u>
<u>Fund Balance</u>			
Non-spendable - inventory	4,276	0	4,276
Restricted for food service	<u>14,796</u>	<u>0</u>	<u>14,796</u>
Total fund balance	<u>19,072</u>	<u>0</u>	<u>19,072</u>
	<u>\$ 128,679</u>	<u>\$ 0</u>	<u>\$ 128,679</u>

HEMLOCK PUBLIC SCHOOLS
Other Supplemental Information
Statement of Revenues, Expenditures
and Changes in Fund Balance - Nonmajor Governmental Fund
For the Year Ended June 30, 2016

	Special Revenue Fund Food Service	Capital Projects Fund	Total
<u>Revenues</u>			
Local sources			
Other local sources	\$ 133,568	\$ 22	\$ 133,590
State sources	13,597	0	13,597
Federal sources	207,758	0	207,758
Total revenues	354,923	22	354,945
<u>Expenditures</u>			
Current:			
Food services	363,147	0	363,147
Capital outlay	0	36,696	36,696
Total expenditures	363,147	36,696	399,843
Net change in fund balance	(8,224)	(36,674)	(44,898)
Fund balance - beginning of year	27,296	36,674	63,970
Fund balance - end of year	\$ 19,072	\$ 0	\$ 19,072

HEMLOCK PUBLIC SCHOOLS
 Other Supplemental Information
 Schedule of Bonded Indebtedness - 2013 Issue
 For the Year Ended June 30, 2016

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	\$ 125,000	
During current year	140,000	265,000

BALANCE OUTSTANDING - June 30, 2016

\$ 7,235,000

<u>Fiscal Year</u>	<u>Interest Rate</u>	<u>Requirements</u>		
		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	2.00%	\$ 150,000	\$ 296,300	\$ 446,300
2018	2.00%	150,000	293,300	443,300
2019	3.00%	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	4.00%	655,000	274,100	929,100
2023	5.00%	1,830,000	247,900	2,077,900
2024	4.00%	1,915,000	156,400	2,071,400
2025	4.00%	1,995,000	79,800	2,074,800
		\$ 7,235,000	\$ 2,203,100	\$ 9,438,100

HEMLOCK PUBLIC SCHOOLS
Other Supplemental Information
Schedule of Bonded Indebtedness - 2015 Issue
For the Year Ended June 30, 2016

<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	\$	0
	During current year	<u>1,075,000</u>	<u>1,075,000</u>
<u>BALANCE OUTSTANDING - June 30, 2016</u>			<u>\$ 6,870,000</u>

<u>Fiscal Year</u>	<u>Interest Rate</u>	<u>Requirements</u>		
		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	4.00%	\$ 1,115,000	\$ 274,800	\$ 1,389,800
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>\$ 6,870,000</u>	<u>\$ 946,200</u>	<u>\$ 7,816,200</u>



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

Independent Auditor's Report

September 27, 2016

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, 2016 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 27, 2016.

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.



Board of Education
Hemlock Public Schools
September 27, 2016

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency: 2016-001.

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*.

Response to Findings

Hemlock Public Schools' response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Hemlock Public Schools' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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



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

September 27, 2016

Board of Education
Hemlock Public Schools
Hemlock, Michigan

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Hemlock Public Schools' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Hemlock Public Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Hemlock Public Schools' compliance.

Opinion on Each Major Federal Program

In our opinion, Hemlock Public Schools, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

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Board of Education
Hemlock Public Schools
September 27, 2016

Report on Internal Control Over Compliance

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

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

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

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

Weinlander Fitzhugh

HEMLOCK PUBLIC SCHOOLS
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2016

SECTION I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified opinion

Internal control over financial reporting:

- Material weakness(es) identified? YES NO
- Significant deficiency(ies) identified? YES NONE REPORTED

Noncompliance material to financial statements noted? YES NO

Federal Awards

Internal Control over major programs:

- Material weakness(es) identified? YES NO
- Significant deficiency(ies) identified? YES NONE REPORTED

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? YES NO

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.027A and 84.173	Special Education Cluster (IDEA)

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

Auditee qualified as low-risk auditee? YES NO

HEMLOCK PUBLIC SCHOOLS
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2016

SECTION II - Financial Statement Findings

2016-001 (Repeat Finding 2015-001)

Criteria or Specific Requirement

Establishment and maintenance of internal controls over the financial reporting process.

Condition

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

Context

The finding is a result of observation and inquiry with School District administration.

Effect

The effect of this condition is that there is a reasonable possibility that a material misstatement of the School District's financial statements could occur without being prevented or detected and corrected on a timely basis.

Cause

The cause is the result of inadequate monitoring of financial activities during the fiscal year.

Recommendation

The School District should review internal controls and implement necessary procedures to ensure that bank reconciliations are prepared on a timely basis after each month-end, and implement procedures to monitor financial activities of the School District throughout the fiscal year.

Views of the Responsible Officials and Planned Corrective Action

Additional oversight of our business operations will be performed to ensure an improved preparedness for reporting, budgeting and year-end audit. Refer to our corrective action plan for additional information.

SECTION III - Federal Award Findings and Questioned Costs

There are no matters reported.

HEMLOCK PUBLIC SCHOOLS
Summary Schedule of Prior Year Findings
For the Year Ended June 30, 2016

2015-002

Audit Finding

Material adjustments were necessary to balance interfund receivables, payables and transfers between funds due to inadequate monitoring of financial activities during the fiscal year.

Corrective Action Taken

The School District conducted a third party review of all business protocols and procedures, which produced recommendations to correct procedural inefficiency. The School District hired a Business Manager during the year who is a certified public accountant.

2015-003

Audit Finding

The School District had budget violations in several General Fund expenditure accounts.

Corrective Action Taken

The finance official attended Saginaw School Business Officials meetings and Michigan School Business Officials meetings to stay updated on all Federal, State and local regulations. The School District conducted a monthly third party review of all business protocols and procedures, which produced recommendations to correct procedural inefficiency. The School District hired a Business Manager during the year who is a certified public accountant.

2015-004

Audit Finding

The School District did not complete timely bank reconciliations for several months of the fiscal year. In addition, various expenditures were recorded and allocated to federal programs at year-end through the journal entry process.

Corrective Action Taken

The School District conducted a third party review of all business protocols and procedures, which produced recommendations to correct procedural inefficiency. The School District hired a Business Manager during the year who is a certified public accountant.

HEMLOCK PUBLIC SCHOOLS
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Unearned) Revenue July 01, 2015	Adjustments and Transfers	Current Year Receipts (Cash Basis)	Current Year Expenditures	Accrued (Unearned) Revenue June 30, 2016
<u>U.S. Department of Education</u>								
Passed through Michigan Department of Education								
Title I, Part A								
Title I Grants to Local Educational Agencies (LEAs) 84.010								
Project 151530-1415		129,753	\$ 129,753	\$ 129,753	\$ 0	\$ 129,753	\$ 0	\$ 0
Project 161530-1516		127,618	0	0	0	120,000	127,618	7,618
			<u>129,753</u>	<u>129,753</u>	<u>0</u>	<u>249,753</u>	<u>127,618</u>	<u>7,618</u>
Title II, Part A								
Improving Teacher Quality State Grants 84.367								
Project 150520-1415		70,191	30,644	30,644	0	44,878	14,234	0
Project 160520-1516		80,000	0	0	0	61,266	61,266	0
			<u>30,644</u>	<u>30,644</u>	<u>0</u>	<u>106,144</u>	<u>75,500</u>	<u>0</u>
Passed through Saginaw Intermediate School District								
Special Education Cluster (IDEA)								
Special Education - Grants to States (IDEA, Part B) 84.027A								
2013-2014		315,724	315,724	13,155	0	13,155	0	0
2014-2015		322,682	307,018	153,357	0	153,357	15,664	15,664
2015-2016		331,815	0	0	0	0	331,815	331,815
			<u>622,742</u>	<u>166,512</u>	<u>0</u>	<u>166,512</u>	<u>347,479</u>	<u>347,479</u>
Special Education - Preschool Grants (IDEA Preschool) 84.173								
2015-2016		19,805	0	0	0	0	19,805	19,805
Special Education Cluster Subtotal			<u>622,742</u>	<u>166,512</u>	<u>0</u>	<u>166,512</u>	<u>367,284</u>	<u>367,284</u>
Total U.S. Department of Education			<u>783,139</u>	<u>326,909</u>	<u>0</u>	<u>522,409</u>	<u>570,402</u>	<u>374,902</u>

See accompanying notes to Schedule of Expenditures of Federal Awards

HEMLOCK PUBLIC SCHOOLS
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Unearned) Revenue July 01, 2015	Adjustments and Transfers	Current Year Receipts (Cash Basis)	Current Year Expenditures	Accrued (Unearned) Revenue June 30, 2016
<u>U.S. Department of Agriculture</u>								
Passed through Michigan Department of Education								
Child Nutrition Cluster								
School Breakfast Program	10.553							
Cash Assistance		36,731	\$ 0	\$ 0	\$ 0	\$ 36,731	\$ 36,731	\$ 0
National School Lunch Program	10.555							
Cash Assistance								
2015-2016		144,363	0	0	0	144,363	144,363	0
Non-Cash Assistance (Commodities)								
Entitlement		19,641	0	0	0	26,665	26,665	0
National School Lunch Program Subtotal			0	0	0	171,028	171,028	0
Total U.S. Department of Agriculture			0	0	0	207,759	207,759	0
			\$ 783,139	\$ 326,909	\$ 0	\$ 730,168	\$ 778,161	\$ 374,902

See accompanying notes to Schedule of Expenditures of Federal Awards

HEMLOCK PUBLIC SCHOOLS
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts (if any) shown on the Schedule represent adjustments or credit made in the normal course of business to amounts reported as expenditures.

NOTE 2 - OTHER DISCLOSURES

Management has utilized the Cash Management System Grant Auditor Report in preparing the Schedule of Expenditures of Federal Awards.

**HEMLOCK PUBLIC SCHOOLS
CORRECTIVE ACTION PLAN
June 30, 2016**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2016-001	Additional oversight of our business operations will be performed on a monthly basis by an outside party to ensure improved preparedness for reporting, budgeting and year-end audit and that tasks are being performed timely.	November 15, 2016	Sandy Slominski, CPA Business Manager