

HOUGHTON LAKE COMMUNITY SCHOOLS

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

YEAR ENDED JUNE 30, 2013

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Houghton Lake Community Schools

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Houghton Lake Community Schools, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issue by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 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 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 Houghton Lake Community Schools as of June 30, 2013, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principle

As discussed in Note 11 to the financial statements, Houghton Lake Community Schools implemented Governmental Accounting Standards Board Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements*, and Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Houghton Lake Community Schools basic financial statements. The additional supplementary information, as identified in the table of contents, and schedule of expenditures of federal awards as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. 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 financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2013 on our consideration of Houghton Lake Community Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Houghton Lake Community Schools' internal control over financial reporting and compliance.

Manes Costeiran PC

October 2, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Houghton Lake Community Schools (HLCS) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2013. Please read it in conjunction with the District's financial statements, which immediately follow this section.

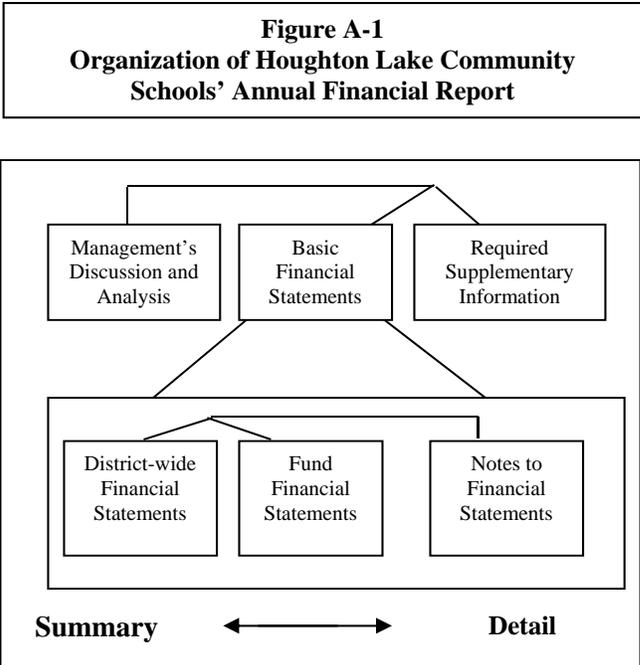
FINANCIAL OVERVIEW

- The District's general fund financial situation improved from the 2012 fiscal year to 2013. This is the fifth consecutive year in which the general fund showed improvement, despite declining enrollment.
- For the 2012-13 school year, general fund, fund balance was increased by \$18,447.
- During the 2012-13 school year compared to 2011-12, general fund revenues decreased by \$261,757 (1.78 percent), while expenditures increased by \$165,944 (1.69 percent).
- Student enrollment decreased by only 13 students from fall of 2012 to fall of 2013 in regards to the foundation mainly due to the blended count. This represents a decrease of approximately .8 percent from the fall 2012 figure.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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



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

**Figure A-2
Major Features of District-Wide and Fund Financial Statements**

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

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

DISTRICT-WIDE STATEMENTS

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

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

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

District-wide financial statements:

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

FUND FINANCIAL STATEMENTS

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

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

The District has two kinds of funds.

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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net position - The District's combined net position was less on June 30, 2013 than the year before, decreasing by \$111,183 to \$4,525,469.

Table A-3 Houghton Lake Community Schools Net Position		
	2013	Restated 2012
Current and other assets	\$ 4,996,242	\$ 4,142,319
Capital assets and other	8,606,881	9,876,279
Total assets	13,603,123	14,018,598
Long-term liabilities outstanding	7,852,476	7,770,455
Other liabilities	1,225,178	1,611,491
Total liabilities	9,077,654	9,381,946
Net position:		
Net investment in capital assets	1,291,321	1,505,994
Restricted for debt service	472,365	433,652
Restricted for food service	74,279	60,940
Unrestricted	2,687,504	2,636,066
Total net position	\$ 4,525,469	\$ 4,636,652

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

	2013	Restated 2012
Revenues:		
Program revenues:		
Charges for services	\$ 261,616	\$ 416,457
Federal and state categorical grants	4,074,291	3,538,356
General revenues:		
Property taxes	7,997,802	8,201,556
Investment	14,540	13,605
State aid - unrestricted	3,290,461	3,055,073
Federal sources - unrestricted	-	390,632
Other	158,591	477,815
Total revenues	<u>15,797,301</u>	<u>16,093,494</u>
Expenses:		
Instruction	9,156,234	9,326,791
Support services	5,493,527	5,418,966
Community services	91,671	83,301
Food services	639,657	725,237
Interest on long-term debt	282,425	289,936
Unallocated depreciations	244,970	175,100
Total expenses	<u>15,908,484</u>	<u>16,019,331</u>
Change in net position	<u>\$ (111,183)</u>	<u>\$ 74,163</u>

District Governmental Activities

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

- Proposal A which established the student foundation grant concept, and has increased that amount from \$5,024 per student in 1995 to \$6,966 per student in 2013.
- The District continues to work earnestly toward aligning expenditures with declining revenue each year. The District looks to manage staffing levels in accordance with student count, and seeks to save money in non-instructional areas whenever possible.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

For the District as a whole its *combined* fund balance, is \$3,815,272 compared to \$4,143,535 in 2012. The total fund balance decreased by \$328,263 for the year primarily due to decrease in other non-major governmental funds of \$346,710 offset by an increase of \$18,447 in the general fund.

General Fund and Budget Highlights

During the 2012-13 fiscal year the original district budget was amended three times to reflect changes which affected the District. The final budget was amended to show a current year balance of \$2,828,230 while the actual fund balance for the year was \$3,140,924. The better-than-anticipated final result was due largely to budgeted funds going unspent at the building and departmental levels.

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

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The District's capital assets are as follows:

Table A-5 Houghton Lake Community Schools' Capital Assets				
	2013			2012
	Cost	Accumulated depreciation	Net book value	Net book value
Buildings and improvements	\$ 16,278,760	\$ 9,180,135	\$ 7,098,625	\$ 7,001,734
Machinery and equipment	1,807,799	652,146	1,155,653	1,028,977
Construction in progress	-	-	-	247,638
Transportation equipment	1,316,907	964,304	352,603	384,867
Total	<u>\$ 19,403,466</u>	<u>\$ 10,796,585</u>	<u>\$ 8,606,881</u>	<u>\$ 8,663,216</u>

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

LONG-TERM DEBT

At year end the District had \$7,852,476 long-term debt outstanding as shown in Table A-6. More detailed information is available in the notes to the financial statements.

	2013	2012
QZAB bonds	\$ 1,000,000	\$ 1,000,000
2008 General Obligation Bonds	6,315,560	6,583,264
Compensated absences and terminated benefits	536,916	541,191
	<u>\$ 7,852,476</u>	<u>\$ 8,124,455</u>

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The State of Michigan per pupil foundation allowance was increased during the 2012-2013 fiscal year to raise the minimum from \$6,846 to \$6,966. This equates to approximately 2.0 percent increase to general fund revenues from state sources.
- The District passed a roughly \$7 million bond issue during 2008-09 for the purposes of renovating and upgrading existing facilities. During 2012-2013, \$507,593 was spent on upgrades. Management believes that these upgrades will enhance opportunities for students and will enable the District to remain a desirable and effective place for student learning.
- The District's financial results for the 2012-2013 year were highly dependent upon federal funding, which was a one-time revenue used basically for wages and benefits for instructional staff.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

**HOUGHTON LAKE COMMUNITY SCHOOLS
STATEMENT OF NET POSITION
JUNE 30, 2013**

	Governmental activities
ASSETS	
Cash	\$ 1,423,569
Investments	\$ 1,261,132
Receivables:	
Accounts receivable	12,976
Intergovernmental	1,565,626
Inventories	147,160
Prepays	97,251
Investments - restricted debt service set-aside	488,528
Capital assets, net of accumulated depreciation	<u>8,606,881</u>
TOTAL ASSETS	<u>13,603,123</u>
LIABILITIES:	
Accounts payable	169,507
Accrued salaries and related items	764,489
Accrued interest	44,208
Unearned revenue	89,157
Intergovernmental payable	157,817
Noncurrent liabilities:	
Due within one year	377,000
Due in more than one year	<u>7,475,476</u>
TOTAL LIABILITIES	<u>9,077,654</u>
NET POSITION:	
Net investment in capital assets	1,291,321
Restricted for debt service	472,365
Restricted for food service	74,279
Unrestricted	<u>2,687,504</u>
TOTAL NET POSITION	<u>\$ 4,525,469</u>

**HOUGHTON LAKE COMMUNITY SCHOOLS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013**

<u>Functions/programs</u>	<u>Expenses</u>	<u>Program revenues</u>		<u>Governmental activities</u>
		<u>Charges for services</u>	<u>Operating grants</u>	<u>Net (expense) revenue and changes in net position</u>
Governmental activities:				
Instruction	\$ 9,156,234	\$ -	\$ 2,461,877	\$ (6,694,357)
Support services	5,493,527	87,415	755,541	(4,650,571)
Community services	91,671	-	197,999	106,328
Food services	639,657	174,201	658,874	193,418
Interest on long-term debt	282,425	-	-	(282,425)
Unallocated depreciation	244,970	-	-	(244,970)
Total governmental activities	<u>\$ 15,908,484</u>	<u>\$ 261,616</u>	<u>\$ 4,074,291</u>	<u>(11,572,577)</u>
General revenues:				
Property taxes, levied for general purposes				7,488,494
Property taxes, levied for debt service				509,308
Investment earnings				14,540
State sources				3,290,461
Intermediate sources				35,223
Other				123,368
Total general revenues				<u>11,461,394</u>
CHANGE IN NET POSITION				(111,183)
NET POSITION, beginning of year as restated				<u>4,636,652</u>
NET POSITION, end of year				<u><u>\$ 4,525,469</u></u>

**HOUGHTON LAKE COMMUNITY SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013**

	General Fund	Total nonmajor funds	Total governmental funds
ASSETS			
ASSETS:			
Cash and cash equivalents	\$ 1,343,276	\$ 80,293	\$ 1,423,569
Investments	1,261,132	-	1,261,132
Receivables:			
Accounts receivable	12,976	-	12,976
Intergovernmental receivables	1,539,327	26,299	1,565,626
Due from other funds	-	21,465	21,465
Inventories	135,664	11,496	147,160
Prepays	25,251	72,000	97,251
Investments - restricted for debt service set-aside	-	488,528	488,528
TOTAL ASSETS	\$ 4,317,626	\$ 700,081	\$ 5,017,707
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	\$ 143,774	\$ 25,733	\$ 169,507
Accrued salaries and related items	764,489	-	764,489
Intergovernmental payables	157,817	-	157,817
Due to other funds	21,465	-	21,465
Unearned revenue	89,157	-	89,157
TOTAL LIABILITIES	1,176,702	25,733	1,202,435
FUND BALANCES:			
Nonspendable:			
Inventories	135,664	11,496	147,160
Prepays	25,251	72,000	97,251

See notes to financial statements.

	<u>General Fund</u>	<u>Total nonmajor funds</u>	<u>Total governmental funds</u>
FUND BALANCES (Concluded):			
Restricted for:			
Debt service	\$ -	\$ 516,573	\$ 516,573
Food service		74,279	74,279
Assigned:			
Subsequent years expenditures	28,153	-	28,153
Unassigned reported in:			
General fund	2,951,856	-	2,951,856
TOTAL FUND BALANCES	<u>3,140,924</u>	<u>674,348</u>	<u>3,815,272</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 4,317,626</u>	<u>\$ 700,081</u>	<u>\$ 5,017,707</u>
Total governmental fund balances			\$ 3,815,272
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			
The cost of the capital assets is		\$ 19,403,466	
Accumulated depreciation is		<u>(10,796,585)</u>	
			8,606,881
Long-term liabilities are not due and payable in the current period and are not reported in the funds:			
Accrued compensated absences and severance benefits			(536,916)
Bonds payable and unamortized premium			(7,315,560)
Accrued interest is not included as a liability in governmental funds, it is recorded when paid			(44,208)
Net position of governmental activities			<u>\$ 4,525,469</u>

See notes to financial statements.

HOUGHTON LAKE COMMUNITY SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2013

	General Fund	Total nonmajor funds	Total governmental funds
REVENUES:			
Local sources:			
Property taxes	\$ 7,488,494	\$ 509,308	\$ 7,997,802
Investment earnings	2,001	12,572	14,573
Food sales	-	137,748	137,748
Other	397,126	-	397,126
Total local sources	7,887,621	659,628	8,547,249
State sources	4,979,208	31,034	5,010,242
Federal sources	1,540,327	664,293	2,204,620
Incoming transfers and other	35,223	-	35,223
Total revenues	14,442,379	1,354,955	15,797,334
EXPENDITURES:			
Current:			
Instruction	8,900,909	-	8,900,909
Supporting services	5,366,668	-	5,366,668
Food service activities	-	639,657	639,657
Community service activities	91,671	-	91,671
Capital outlay	-	577,650	577,650

See notes to financial statements.

	<u>General Fund</u>	<u>Total nonmajor funds</u>	<u>Total governmental funds</u>
EXPENDITURES (Concluded):			
Debt service:			
Principal repayment	-	265,000	265,000
Interest	-	284,009	284,009
Other	-	33	33
Total expenditures	<u>14,359,248</u>	<u>1,766,349</u>	<u>16,125,597</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>83,131</u>	<u>(411,394)</u>	<u>(328,263)</u>
OTHER FINANCING SOURCES (USES):			
Transfers in	-	64,684	64,684
Transfers out	(64,684)	-	(64,684)
Total other financing sources (uses)	<u>(64,684)</u>	<u>64,684</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	18,447	(346,710)	(328,263)
FUND BALANCES:			
Beginning of year	3,122,477	1,021,058	4,143,535
End of year	<u>\$ 3,140,924</u>	<u>\$ 674,348</u>	<u>\$ 3,815,272</u>

See notes to financial statements.

**HOUGHTON LAKE COMMUNITY SCHOOLS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013**

Net change in fund balances total governmental funds \$ (328,263)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. In the statement of activities these costs are allocated over their estimated useful lives as depreciation.

Depreciation expense	(587,466)
Capital outlay	531,131
Loss on disposal of capital assets	-

Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:

Accrued interest payable, beginning of the year	45,644
Accrued interest payable, end of the year	(44,208)

The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The effect of these differences is the treatment of long-term debt and related items and are as follows:

Payments on debt	265,000
Amortization of bond premium	2,704

Compensated absences are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds:

Accrued compensated absences and termination benefits, beginning of the year	541,191
Accrued compensated absences and termination benefits, end of the year	(536,916)

Change in net position of governmental activities \$ (111,183)

**HOUGHTON LAKE COMMUNITY SCHOOLS
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2013**

	<u>Agency fund</u>
ASSETS:	
Cash	<u>\$ 213,684</u>
LIABILITIES:	
Due to student and other groups	<u>\$ 213,684</u>

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-wide Financial Statements

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

B. Reporting Entity

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

C. Basis of Presentation - Government-wide Financial Statements

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

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

D. Basis of Presentation - Fund Financial Statements

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The District reports the following major governmental funds:

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

Other Non-major Funds

The capital projects fund includes capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the District has complied with the applicable provisions of §1351a of the Revised School Code.

Beginning with the year of bond issuance, the District has reported the annual construction activity in the 2008 capital projects fund. The projects for which the 2008 bond was issued were considered complete on June 15, 2011.

The following is a summary of the cumulative revenues and expenditures for the capital project bond activity since inception:

	2008 Bond
Revenues	\$ 107,198
Expenditures	\$ 7,257,198

The above revenue figure does not include the original 2008 bond proceeds of \$7,150,000.

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

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

The 2008 *capital projects fund* is used to account for the 2008 debt proceeds and related expenditures.

The QZAB *capital projects fund* accounts for the receipt of the QZAB bond proceeds and the acquisition of fixed assets or construction of capital projects.

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

E. Measurement Focus and Basis of Accounting

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

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Measurement Focus and Basis of Accounting (Continued)

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

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

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

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Measurement Focus and Basis of Accounting (Concluded)

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

The agency fund has no measurement focus but utilizes the *accrual basis of accounting* for reporting its assets and liabilities.

F. Budgetary Information

Budgetary basis of accounting:

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

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Budgetary Information (Concluded)

3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the general fund are noted in the required supplementary information section.
4. Transfers may be made for budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. The budget was amended during the year with supplemental appropriations, the last one approved prior to year end June 30, 2013. The District does not consider these amendments to be significant.

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

1. Cash and cash equivalents

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

2. Investments

Certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. Standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the District intends to hold the investment until maturity.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

2. Investments (Concluded)

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

3. Inventories and prepaid items

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

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

4. Capital assets

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

4. Capital assets (Concluded)

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

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

5. Deferred outflows/inflows of resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District has no items that qualify for reporting in this category.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has no items that qualify for reporting in this category.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

6. Net position flow assumption

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

7. Fund balance flow assumptions

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

8. Fund balance policies

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

8. Fund balance policies (Concluded)

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

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

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

Revenues and Expenditures/Expenses

1. Program revenues

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Revenues and Expenditures/Expenses (Continued)

2. Property taxes

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

For the year ended June 30, 2013, the District levied the following amounts per \$1,000 of assessed valuation:

Fund	Mills
General Fund:	
Non-Principal Residence Exemption (PRE)	18.000
Commercial Personal Property	6.000
Debt Service Fund:	
PRE, Non-PRE, Commercial Personal Property	0.675

3. Compensated absences

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

4. Long-term obligations

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

H. Revenues and Expenditures/Expenses (Concluded)

4. Long-term obligations (Concluded)

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

NOTE 2 - DEPOSITS AND INVESTMENTS - CREDIT RISK

As of June 30, 2013, the District had the following investments.

<u>Investment type</u>	<u>Fair value</u>	<u>Weighted average maturity (years)</u>	<u>Standard & Poor's rating</u>	<u>%</u>
U.S. Treasury Notes	\$ 488,528	0.4671	AA+	27.92%
MILAF External Investment pool - MIMAX	<u>1,261,132</u>	0.0027	AAAm	<u>72.08%</u>
Total fair value	<u>\$ 1,749,660</u>			<u>100.00%</u>
Portfolio weighted average maturity		<u>0.1324</u>		

1 day maturity equals 0.0027, one year equals 1.00

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

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

The District voluntarily invests certain excess funds in external pooled investment funds which included money market funds. One of the pooled investment funds utilized by the District is the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external pooled investment fund of “qualified” investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports as of June 30, 2013, the fair value of the District’s investments is the same as the value of the pool shares.

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

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

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

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. As of June 30, 2013, \$1,524,415 of the District’s bank balance of \$1,774,415 was exposed to custodial credit risk because it was uninsured and uncollateralized. The carrying amount is \$1,637,253.

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

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

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

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

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

At June 30, 2013, the carrying amounts are as follows:

Deposits - including fiduciary funds of \$213,684	\$ 1,637,253
Investments - restricted debt service set-aside	1,749,660
	<u>\$ 3,386,913</u>

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

Cash - agency fund	\$ 213,684
Government wide:	
Cash	1,423,569
Investments	1,261,132
Investments - restricted debt service set-aside	488,528
	<u>\$ 3,386,913</u>

NOTE 3 - INTERGOVERNMENTAL RECEIVABLES

Intergovernmental receivables at June 30, 2013 consist of the following:

Intergovernmental units:	
State aid	\$ 1,001,204
Federal revenue	538,138
Other	26,284
	<u>\$ 1,565,626</u>

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

NOTE 4 - CAPITAL ASSETS

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

	Balance July 1, 2012	Additions	Reclassifications /deletions	Balance June 30, 2013
Governmental activities:				
Capital assets, not being depreciated:				
Construction in progress	\$ 247,638	\$ -	\$ 247,638	\$ -
Capital assets, being depreciated				
Site improvements	1,799,695	-	-	1,799,695
Buildings and improvements	13,971,472	507,593	-	14,479,065
Machinery and equipment	1,741,063	217,892	151,156	1,807,799
Transportation equipment	1,263,623	53,284	-	1,316,907
Total capital assets, being depreciated	<u>18,775,853</u>	<u>778,769</u>	<u>151,156</u>	<u>19,403,466</u>
Accumulated depreciation:				
Site improvements	284,134	82,375	-	366,509
Buildings and additions	8,485,299	328,327	-	8,813,626
Machinery and equipment	712,086	91,216	151,156	652,146
Transportation equipment	878,756	85,548	-	964,304
Total accumulated depreciation	<u>10,360,275</u>	<u>587,466</u>	<u>151,156</u>	<u>10,796,585</u>
Net capital assets being depreciated	<u>8,415,578</u>	<u>191,303</u>	<u>-</u>	<u>8,606,881</u>
Net governmental capital assets	<u>\$ 8,663,216</u>	<u>\$ 191,303</u>	<u>\$ 247,638</u>	<u>\$ 8,606,881</u>

Depreciation for the fiscal year ended June 30, 2013 amounted to \$587,466. The District allocated depreciation expense to the various activities as follows:

Instruction	\$ 335,223
Support services	7,273
Unallocated	<u>244,970</u>
	<u>\$ 587,466</u>

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

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

NOTE 5 - LONG-TERM DEBT

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

The following is a summary of the long-term debt transactions of the District for the year ended June 30, 2013:

	QZAB bonds	General obligation bonds	Sub-total bonds and notes	Compensated absences	Severance benefits	Total
Balance, July 1, 2012	\$ 1,000,000	\$ 6,583,264	\$ 7,583,264	\$ 459,363	\$ 81,828	\$ 8,124,455
Additions	-	-	-	-	9,631	9,631
Deletions	-	267,704	267,704	13,906	-	281,610
Balance, June 30, 2013	1,000,000	6,315,560	7,315,560	445,457	91,459	7,852,476
Due within one year	-	290,000	290,000	78,000	9,000	377,000
Due in more than one year	\$ 1,000,000	\$ 6,025,560	\$ 7,025,560	\$ 367,457	\$ 82,459	\$ 7,475,476

Long-term obligation debt at June 30, 2013 is comprised of the following:

2005 School Building Bond is due in one installment on June 21, 2021. The bond was issued under the Qualified Zone Academy Bond program. Interest is reduced to 1.00% through a tax credit. A set-aside amount of \$64,684 is required each year. Interest of 2.75% will be earned on the set-aside account.	\$ 1,000,000
2008 general obligation bonds due in annual installments of \$290,000 to \$540,000 through May 1, 2028 with interest from 3.00% to 5.00%.	6,275,000
Plus: premium on bonds	<u>40,560</u>
Total bonded debt	7,315,560
Obligation under contract from compensated absences	445,457
Obligation under contract from severance incentives	<u>91,459</u>
Total long-term debt	<u><u>\$ 7,852,476</u></u>

Interest expense (all funds) for the year ended June 30, 2013 was approximately \$280,000.

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

NOTE 5 - LONG-TERM DEBT (Concluded)

The annual requirements to amortize long-term debt outstanding as of June 30, 2013, including interest of \$2,457,778 are as follows:

Year ending June 30,	Principal	Interest	Total
2014	\$ 290,000	\$ 275,248	\$ 565,248
2015	315,000	265,824	580,824
2016	335,000	254,798	589,798
2017	345,000	243,074	588,074
2018	365,000	225,824	590,824
2019-2023	3,080,000	845,974	3,925,974
2024-2028	2,545,000	347,036	2,892,036
Total	7,275,000	2,457,778	9,732,778
Premium on bonds	40,560	-	40,560
Accumulated compensated absences	445,457	-	445,457
Accumulated severance benefits	91,459	-	91,459
	<u>\$ 7,852,476</u>	<u>\$ 2,457,778</u>	<u>\$ 10,310,254</u>

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

NOTE 6 - INTERFUND RECEIVABLES AND PAYABLES

Interfund payable and receivable balances at June 30, 2013 are as follows:

Receivable fund		Payable fund	
2008 Debt service	\$ 16,436	General	\$ 21,465
School lunch	5,029		
	\$ 21,465		\$ 21,465

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

NOTE 7 - DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS

Plan Description - The District participates in the statewide Michigan Public School Employees' Retirement System (System) which 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. The System's pension plan was established by the State to provide retirement, survivor, and disability benefits to public school employees. In addition, the System's health plan provides all retirees with the option of receiving health, dental and vision coverage under the Michigan Public School Employees' Retirement Act.

The System's financial statements are included as a pension and other employee benefit trust fund in the State of Michigan Comprehensive Annual Financial Report. The MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, Michigan 48909-7671 or by calling (800) 381-5111. It is also available at <http://www.michigan.gov/orsschools>.

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

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

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

Benefit Provisions - Pension

Introduction

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

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.

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 December 1, 2012, subsequently amended to February 1, 2013. Under the reform, members voluntarily chose to increase, maintain, or stop their contributions to the pension fund.

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

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

Benefit Provisions - Pension (Continued)

Option 1 - members voluntarily elected to increase their contributions to the pension fund as noted below, and retain the 1.5% pension factor in their pension formula. The increased contribution would begin as of their transition date and continue until they terminate public school employment.

- Basic Plan members: 4% contribution
- MIP-Fixed, MIP-Graded, and MIP-Plus members: a flat 7% contribution

Option 2 - members voluntarily elected to increase their contribution to the pension fund as stated in Option 1 and retain the 1.5% pension factor in their pension formula. The increased contribution would begin as of their transition date and continue until they reach 30 years of service. If and when they reach 30 years of service, their contribution rates will return to the previous level in place as of the day before their transition date (0% for Basic Plan members, 3.9% for MIP-Fixed, up to 4.3% for MIP-Graded, or up to 6.4% for MIP-Plus). The pension formula for any service thereafter would include a 1.25% pension factor.

Option 3 - members voluntarily elected not to increase their contribution to the pension fund and maintain their current level of contribution to the pension fund. The pension formula for their years of service as of the day before their transition date will include a 1.5% pension factor. The pension formula for any service thereafter will include a 1.25% pension factor.

Option 4 - members voluntarily elected to no longer contribute to the pension fund and therefore are switched to the Defined Contribution plan for future service as of their transition date. 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 to a 457 account. They vest in employer contributions and related earnings in their 401(k) account based on the following schedule: 50% at 2 years, 75% at 3 years, and 100% at 4 years of service. They are 100% vested in any personal contributions and related earnings in their 457 account. Upon retirement, if they meet age and service requirements (including their *total* years of service), they would also receive a pension (calculated based on years of service and Final Average Compensation as of the day before their transition date and a 1.5% pension factor).

Members who did not make an election before the deadline defaulted to Option 3 as described above. Deferred or nonvested public school employees on September 3, 2012, who return to public school employment on or after September 4, 2012, will be considered as if they had elected Option 3 above. Returning members who made the retirement plan election will retain whichever option they chose.

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

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

Benefit Provisions - Pension (Concluded)

Employees who first work on or after September 4, 2012, choose between two retirement plans: the Pension Plus hybrid plan described above and a Defined Contribution (DC) plan that provides a 50% employer match (up to 3% of salary) on employee contributions. New employees are automatically enrolled as members in the Pension Plus plan as of their date of hire. They have 75 days from the last day of their first pay period to elect to opt out of the Pension Plus hybrid plan and become a qualified participant in the DC plan; if no election is made they will remain in the Pension Plus hybrid plan. If they elect to opt out of the Pension Plus hybrid plan, their participation in the DC plan will be retroactive to their date of hire.

Funding Policy

Member Contributions

Mandatory member contributions were phased out between 1974 and 1977, with the plan remaining noncontributory until January 1, 1987, when 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. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990, when it was reduced to 3.9%. Members first hired between January 1, 1990 and June 30, 2008, and returning members who did not work between January 1, 1987 through December 31, 1989, contribute at the following graduated permanently fixed contribution rates: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Members first hired July 1, 2008, or later including Pension Plus Plan members, contribute at the following graduated permanently fixed contribution rates: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 6.4% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan Member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987, or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Actuarial rate of interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves public school service and no pension is payable, the member's accumulated contributions plus interest, if any, are refundable.

Under Public Act 300 of 2012, eligible members voluntarily chose between increasing, maintaining, or stopping their contributions to the pension fund as of the transition date. Members who elected to increase their level of contribution contribute 4% (Basic Plan) or 7% (MIP); by doing so they maintain a 1.5% pension factor in their pension formula. Members who elected to maintain their level of contribution will receive a 1.25% pension factor in their pension formula for their years of service as of their transition date. Their contribution rates are described above. Members who elected to stop their contributions became participants in the Defined Contribution plan as of their transition date.

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

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

Employer Contributions

Each school district or reporting entity is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. For the period October 1 through September 30, the School District pays an amount equal to a percentage of its employees' wages to the Michigan Public School Employees Retirement System ("MPSERS"), which is administered by the State of Michigan. These contributions are required by law and are calculated by using the contribution rates and periods provided in the table below of the employees' wages. In addition, the District is required to match 50% up to 1% of the employees contribution in the Pension Plus plan. The contribution requirements of plan members and the District are established and may be amended by the MPSERS Board of Trustees. The District contributions to MPSERS were equal to the required contribution for those years.

The School District's contributions to MPSERS are as follows:

Fiscal Year Ending June 30,	Contributions to MPSERS
2013	\$ 1,907,000
2012	1,706,000
2011	1,438,000

Included in the amounts paid above, the District received \$140,107 of section 147(c) State Aid for the sole purpose of making supplemental payments to MPSERS. The District has recorded this amount as state revenue and additional pension expenditures/expenses for the year ended June 30, 2013.

PA 464 Retirees Returning to Work, effective December 27, 2012 also requires applicable employer contributions to the defined benefit and defined contribution plans. These amounts if any are included in the amounts paid above.

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

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

		Fiscal Year 2013						
		Effective February 1, 2013						
Public School Employee Pension Rates (FYE Sept. 30th)	Pension	Basic MIP	Pension Plus	Pension Plus PHF - First worked after 9/3/12	Pension Plus to DC with PHF First worked after 9/3/12	Basic MIP DB to DC with DB Health	Basic MIP DB to DC with PHF	Basic MIP with PHF
DB Contributions								
Pension Normal Cost		2.43%	2.24%	2.24%	0.00%	0.00%	0.00%	2.43%
Pension UAL		11.42%	11.42%	11.42%	11.42%	11.42%	11.42%	11.42%
Pension Early Retirement Incentive		1.36%	1.36%	1.36%	1.36%	1.36%	1.36%	1.36%
Pension Contributions - Total Rate		15.21%	15.02%	15.02%	12.78%	12.78%	12.78%	15.21%
Health Normal Cost		0.93%	0.93%	0.00%	0.00%	0.93%	0.00%	0.00%
Health UAL		8.18%	8.18%	8.18%	8.18%	8.18%	8.18%	8.18%
Health Contributions - Total Rate		9.11%	9.11%	8.18%	8.18%	9.11%	8.18%	8.18%
Total		24.32%	24.13%	23.20%	20.96%	21.89%	20.96%	23.39%
DC Contributions								
DC Employer Contributions		0.00%	1.00%	1.00%	3.00%	4.00%	4.00%	0.00%
Personal Healthcare Fund		0.00%	0.00%	2.00%	2.00%	0.00%	2.00%	2.00%
Total		0.00%	1.00%	3.00%	5.00%	4.00%	6.00%	2.00%

		4 months ended 1/31/2013			
		First worked before 7/1/10	First worked between 6/30/10 and 9/3/12	and First worked after 9/3/12	Elected DC and First worked after 9/3/12
Public School Employee Pension Rates (FYE Sept. 30th)	Pension				
Pension Normal Cost (Prefunded)		3.47%	2.24%	2.24%	0.00%
Pension Unfunded Accrued Liability		11.42%	11.42%	11.42%	11.42%
Early Retirement Incentive Program		1.36%	1.36%	1.36%	1.36%
Pension Total Rate		16.25%	15.02%	15.02%	12.78%
Retiree Health Care Contribution (Cash basis)		0.93%	0.93%	0.00%	0.00%
Surcharge due to Injunction		8.18%	8.18%	8.18%	8.18%
Health Total Rate		9.11%	9.11%	8.18%	8.18%
Total		25.36%	24.13%	23.20%	20.96%

		Fiscal Years 2012 and 2011					
		FY 2011 - 2012		11 months ended 9/30/11		1 month ended 10/31/10	
Public School Employee Pension Rates (FYE Sept. 30th)	Pension	First worked before 7/1/10	First worked after 6/30/10	First worked before 7/1/10	First worked after 6/30/10	First worked before 7/1/10	First worked after 6/30/10
Pension Normal Cost (Prefunded)		3.47%	2.24%	3.74%	2.24%	3.74%	2.24%
Pension Unfunded Accrued Liability		12.49%	12.49%	8.42%	8.42%	8.42%	8.42%
Early Retirement Incentive Program		0.00%	0.00%	N/A	N/A	N/A	N/A
Pension Total Rate		15.96%	14.73%	12.16%	10.66%	12.16%	10.66%
Retiree Health Care Contribution (Cash basis)		5.50%	5.50%	5.50%	5.50%	7.25%	7.25%
Surcharge due to Injunction		3.00%	3.00%	3.00%	3.00%	N/A	N/A
Health Total Rate		8.50%	8.50%	8.50%	8.50%	7.25%	7.25%
Total		24.46%	23.23%	20.66%	19.16%	19.41%	17.91%

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

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

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, which, through 2012, is currently funded on a cash disbursement basis. Beginning fiscal year 2013, it will be 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. Dependents are eligible for health care coverage if they meet the dependency requirements set forth in Public Act 300 of 1980, as amended.

Retiree Healthcare Reform of 2012

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

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

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

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

Benefit Provisions - Other Postemployment (Continued)

Retiree Healthcare Reform of 2012 (Continued)

Members who did not make an election before the deadline retain the subsidy benefit and continue making the 3% contribution toward retiree healthcare. Deferred or nonvested members on September 3, 2012 who are rehired on or after September 4, 2012, will contribute 3% contribution to retiree healthcare and will retain the subsidy benefit. Returning members who made the retirement healthcare election will retain whichever option they chose.

Those who elected to retain the premium subsidy continue to annually contribute 3% of compensation into the health care funding account. A member or former member age 60 or older, who made the 3% healthcare contributions but who does not meet eligibility requirements may request a refund of their contributions. Similarly, if a retiree dies before the total value of the insurance subsidy paid equals the total value of the contributions the member made, and there are no eligible dependents, the beneficiary may request a refund of unused funds. Refunds of member contributions to the healthcare funding account are issued as a supplemental benefit paid out over a 60 month period.

1. Retirees with at least 21 years of service, who terminate employment after October 31, 1980, with vested deferred benefits, are eligible for subsidized employer paid health benefit coverage.
2. A delayed subsidy applies to retirees who became a member of the retirement system before July 1, 2008 and who purchased service credit on or after July 1, 2008. Such individuals are eligible for premium subsidy benefits at age 60 or when they would have been eligible to retire without having made a service purchase, whichever comes first. They may enroll in the insurances earlier, but are responsible for the full premium until the premium subsidy begins.

Under Public Act 300 of 2012, the state no longer offers an insurance premium subsidy in retirement for public school employees who first work on or after September 4, 2012. Instead, all new employees will be placed into the Personal Healthcare Fund where they will have support saving for retirement healthcare costs in the following ways:

- They will be automatically enrolled in a 2% employee contribution into a 457 account as of their date of hire, earning them a 2% employer match into a 401(k) account.
- They will receive a credit into a Health Reimbursement Account (HRA) at termination if they have at least 10 years of service at termination. The credit will be \$2,000 for participants who are at least 60 years of age at termination or \$1,000 for participants who are less than 60 years of age at termination.

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

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

Benefit Provisions - Other Postemployment (Concluded)

Retiree Healthcare Reform of 2012 (Concluded)

Participants in the Personal Healthcare Fund, who become disabled for any reason, are not eligible for any employer funded health insurance premium subsidy. If a PHF participant suffers a non-duty related death, his or her health benefit dependents are not eligible to participate in any employer funded health insurance premium subsidy. If a PHF participant suffers a duty death, the state will pay the maximum health premium allowed by statute for the surviving spouse and health benefit dependents. The spouses' insurance subsidy may continue until his or her death, the dependents' subsidy may continue until their eligibility ends (through marriage, age, or other event). Upon eligibility for a duty death benefit, the 2% employer matching contributions and related earnings in the PHF 401(k) are forfeited and the state will pay for the subsidy payments. The beneficiaries receive the member's personal contributions and related earnings in the PHF 457 account.

Other Information

On June 28, 2010, the Michigan Court of Claims issued an injunction in response to a challenge to the authority of the State to require employees who began working before July 1, 2010, to contribute 3% of reportable wages to the retiree health care trust at MPSERS. As a result, the State has adjusted the contribution rate due on employees' wages paid between November 1, 2010 and September 30, 2011 to 20.66% for members who first worked prior to July 1, 2010 and 19.16% for Pension Plus members. In March 2011, the Court of Claims granted the plaintiffs' motions for summary disposition finding that the mandatory 3% contribution violated both the U.S. and Michigan constitutions. The State appealed the ruling to the Michigan Court of Appeals. The Court of Appeals accepted the appeal and ordered an expedited review. The Court of Appeals also granted the State's motion for a stay of proceedings and ordered that the 3% deduction continue to be collected and placed into an escrow account until further order of the Court.

On August 16, 2012 the State of Michigan Court of Appeals affirmed the trial court's orders granting summary dispositions in favor of the plaintiffs in each of the cases before it, terminating the stay ordered by this Court on March 18, 2011. The State of Michigan has appealed the decision to the Michigan Supreme Court. The Office of Retirement Services is instructing Michigan public school employers to continue withholding the 3% contribution. Should the plaintiffs prevail, the escrowed funds will be returned to the employees.

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

NOTE 8 - RISK MANAGEMENT

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

The District continues to carry commercial insurance for other risks of loss, including property and casualty errors and omissions, fleet and employee health and accident insurance.

NOTE 9 - TRANSFERS

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

NOTE 10 - COMMITMENTS AND CONTINGENCIES

The District has various open grievances. Although the outcome of these grievances is not presently determinable, in the opinion of the District's legal counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the District.

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

NOTE 11 - NEW ACCOUNTING STANDARDS

For the year end June 30, 2013 the District implemented the following new pronouncements:

GASB Statement 62 - Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.

Summary:

The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants (AICPA) Committee on Accounting Procedure

GASB Statement 63 - Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position and GASB Statement 65 - Items previously reported as Assets and Liabilities.

Summary:

These Statements provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

Concepts Statement No. 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

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

NOTE 11 - NEW ACCOUNTING STANDARDS (Concluded)

GASB Statement 65 also states that bond issuance costs should be expensed in the year which they are incurred. As a result, the remaining unamortized bond issuance costs were written off as of July 1, 2012. The restatement of the beginning of the year net position is follows:

	Governmental activities
Net position as previously stated, July 1, 2012	\$ 4,736,744
Adoption of GASB 65	(100,092)
	\$ 4,636,652

NOTE 12 - UPCOMING ACCOUNTING PRONOUNCEMENT

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, was issued by the GASB in June 2012 and will be effective for the District's 2015 fiscal year. The Statement requires governments that participate in defined benefit pension plans to report in their statement of net position a net pension liability. The net pension liability is the difference between the total pension 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 68 requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the cost-sharing plan. The Statement also will improve the comparability and consistency of how governments calculate the pension liabilities and expense.

REQUIRED SUPPLEMENTARY INFORMATION

**HOUGHTON LAKE COMMUNITY SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2013**

	Original budget	Final budget	Actual	Variance with final budget
REVENUES:				
Local sources	\$ 8,202,727	7,890,097	\$ 7,887,621	\$ (2,476)
State sources	4,013,060	5,008,474	4,979,208	(29,266)
Federal sources	1,411,692	1,708,740	1,540,327	(168,413)
Incoming transfers and other	220,737	59,737	35,223	(24,514)
Total revenues	<u>13,848,216</u>	<u>14,667,048</u>	<u>14,442,379</u>	<u>(224,669)</u>
EXPENDITURES:				
Current:				
Instruction:				
Basic programs	6,703,784	6,768,397	6,654,838	113,559
Added needs	2,037,385	2,199,654	2,151,414	48,240
Adult education	62,896	116,039	94,657	21,382
Total instruction	<u>8,804,065</u>	<u>9,084,090</u>	<u>8,900,909</u>	<u>183,181</u>
Supporting services:				
Pupil	672,357	707,907	652,748	55,159
Instructional staff	286,581	388,969	306,640	82,329
General administration	337,775	270,681	262,580	8,101
School administration	949,573	952,615	945,875	6,740
Business	361,744	353,827	337,707	16,120
Operation/maintenance	1,179,553	1,266,845	1,171,514	95,331
Pupil transportation	886,072	1,089,768	1,080,722	9,046
Central	635,621	679,603	608,882	70,721
Total supporting services	<u>5,309,276</u>	<u>5,710,215</u>	<u>5,366,668</u>	<u>343,547</u>
Community services	88,928	102,306	91,671	10,635
Total expenditures	<u>14,202,269</u>	<u>14,896,611</u>	<u>14,359,248</u>	<u>537,363</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(354,053)</u>	<u>(229,563)</u>	<u>83,131</u>	<u>312,694</u>
OTHER FINANCING SOURCES (USES):				
Transfers out	(117,805)	(64,684)	(64,684)	-
Total other financing uses	<u>(117,805)</u>	<u>(64,684)</u>	<u>(64,684)</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	<u>\$ (471,858)</u>	<u>\$ (294,247)</u>	<u>18,447</u>	<u>\$ 312,694</u>
FUND BALANCE:				
Beginning of year			<u>3,122,477</u>	
End of year			<u>\$ 3,140,924</u>	

ADDITIONAL SUPPLEMENTARY INFORMATION

**HOUGHTON LAKE COMMUNITY SCHOOLS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND
JUNE 30, 2013**

		<u>Special revenue</u>		<u>Total nonmajor funds</u>
		<u>Food service</u>	<u>Debt service</u>	
ASSETS				
ASSETS:				
Cash and cash equivalents	\$	67,841	\$ 12,452	\$ 80,293
Intergovernmental receivable		26,299	-	26,299
Due from other funds		5,029	16,436	21,465
Inventories		11,496	-	11,496
Prepays		72,000	-	72,000
Investments - restricted for debt service set aside		-	488,528	488,528
		<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	\$	182,665	\$ 517,416	\$ 700,081
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$	24,890	\$ 843	\$ 25,733
FUND BALANCES:				
Nonspendable:				
Inventories		72,000	-	72,000
Prepays		11,496	-	11,496
Restricted for:				
Debt service		-	516,573	516,573
Food service		74,279	-	74,279
		<u> </u>	<u> </u>	<u> </u>
TOTAL FUND BALANCES		157,775	516,573	674,348
		<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES AND FUND BALANCES	\$	182,665	\$ 517,416	\$ 700,081
		<u> </u>	<u> </u>	<u> </u>

**HOUGHTON LAKE COMMUNITY SCHOOLS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUND
 YEAR ENDED JUNE 30, 2013**

	<u>Special revenue</u>		<u>Capital projects</u>	<u>Total nonmajor funds</u>
	<u>Food service</u>	<u>Debt service</u>		
REVENUES:				
Local sources:				
Property taxes	\$ -	\$ 509,308	\$ -	\$ 509,308
Investment earnings	-	12,327	245	12,572
Food sales	137,748	-	-	137,748
Total local sources	137,748	521,635	245	659,628
State sources	31,034	-	-	31,034
Federal sources	664,293	-	-	664,293
Total revenues	833,075	521,635	245	1,354,955
EXPENDITURES:				
Current:				
Food service activities	639,657	-	-	639,657
Capital outlay	251,455	-	326,195	577,650
Debt service:				
Principal repayment	-	265,000	-	265,000
Interest expense	-	284,009	-	284,009
Other expense	-	33	-	33
Total expenditures	891,112	549,042	326,195	1,766,349
EXCESS OF EXPENDITURES OVER REVENUES	(58,037)	(27,407)	(325,950)	(411,394)
OTHER FINANCING SOURCES (USES):				
Transfers in	-	64,684	-	64,684
NET CHANGE IN FUND BALANCES	(58,037)	37,277	(325,950)	(346,710)
FUND BALANCES:				
Beginning of year	215,812	479,296	325,950	1,021,058
End of year	\$ 157,775	\$ 516,573	\$ -	\$ 674,348

**HOUGHTON LAKE COMMUNITY SCHOOLS
DEBT SERVICE FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2013**

	2008 Debt Service	QZAB	Total nonmajor
ASSETS			
ASSETS:			
Cash and cash equivalents	\$ 12,452	\$ -	\$ 12,452
Due from other funds	16,436	-	16,436
Investments - restricted for debt service set-aside	-	488,528	488,528
TOTAL ASSETS	\$ 28,888	\$ 488,528	\$ 517,416
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	\$ 843	\$ -	\$ 843
FUND BALANCES:			
Restricted for debt service	28,045	488,528	516,573
TOTAL LIABILITIES AND FUND BALANCES	\$ 28,888	\$ 488,528	\$ 517,416

**HOUGHTON LAKE COMMUNITY SCHOOLS
DEBT SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2013**

	2008 Debt Service	QZAB	Total Nonmajor
REVENUES:			
Local sources:			
Property taxes	\$ 509,308	\$ -	\$ 509,308
Interest	-	12,327	12,327
Total revenues	<u>509,308</u>	<u>12,327</u>	<u>521,635</u>
EXPENDITURES:			
Redemption of bonds	265,000	-	265,000
Interest on bonded debt	274,009	10,000	284,009
Other	33	-	33
Total expenditures	<u>539,042</u>	<u>10,000</u>	<u>549,042</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(29,734)	2,327	(27,407)
OTHER FINANCING SOURCES:			
Transfer in	-	64,684	64,684
NET CHANGE IN FUND BALANCES	(29,734)	67,011	37,277
FUND BALANCES:			
Beginning of year	<u>57,779</u>	<u>421,517</u>	<u>479,296</u>
End of year	<u>\$ 28,045</u>	<u>\$ 488,528</u>	<u>\$ 516,573</u>

**HOUGHTON LAKE COMMUNITY SCHOOLS
NONMAJOR CAPITAL PROJECTS FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2013**

	<u>QZAB Capital projects</u>	<u>2008 Capital projects fund</u>	<u>Total Nonmajor Capital Projects</u>
REVENUE:			
Other local revenue	\$ 81	\$ 164	\$ 245
EXPENDITURES:			
Capital outlay	<u>84,761</u>	<u>241,434</u>	<u>326,195</u>
NET CHANGE IN FUND BALANCES	(84,680)	(241,270)	(325,950)
FUND BALANCES:			
Beginning of year	<u>84,680</u>	<u>241,270</u>	<u>325,950</u>
End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**HOUGHTON LAKE COMMUNITY SCHOOLS
BONDED DEBT
QUALIFIED ZONE ACADEMY BONDS (QZAB)
JUNE 30, 2013**

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

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

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

**HOUGHTON LAKE COMMUNITY SCHOOLS
BONDED DEBT
JUNE 30, 2013**

2008 General Obligation Bonds

Fiscal year year	Principal due May 1,	Interest due		Total due annually
		November 1	May 1	
2014	\$ 290,000	\$ 132,624	\$ 132,624	\$ 555,248
2015	315,000	127,912	127,912	570,824
2016	335,000	122,399	122,399	579,798
2017	345,000	116,537	116,537	578,074
2018	365,000	107,912	107,912	580,824
2019	385,000	98,787	98,787	582,574
2020	400,000	91,087	91,087	582,174
2021	415,000	83,087	83,087	581,174
2022	430,000	74,528	74,528	579,056
2023	450,000	65,498	65,498	580,996
2024	470,000	56,048	56,048	582,096
2025	500,000	46,060	46,060	592,120
2026	505,000	35,185	35,185	575,370
2027	530,000	24,075	24,075	578,150
2028	540,000	12,150	12,150	564,300
Total	\$ 6,275,000	\$ 1,193,889	\$ 1,193,889	\$ 8,662,778

The above bonds dated September 30, 2008 were issued for the purpose of building and site purposes. The amount of the original bond issue was \$7,150,000. The above bonds carry interest ranging from 3.00% to 5.00%.

**HOUGHTON LAKE COMMUNITY SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2013**

Federal grantor/pass-through grantor program title	Federal CFDA number	Pass-through grantor's number	Award amount	Accrued revenue 7/1/2012	Prior year expenditures (memorandum only)	Current year receipts (cash basis)	Current year expenditures	Adjustments	Accrued revenue 6/30/2013
<u>U.S. Department of Agriculture:</u>									
Passed through Michigan Department of Education:									
Child nutrition cluster:									
Non-cash assistance (donated food):									
National School Lunch Program - donated food Entitlement	10.555		\$ 36,453	\$ -	\$ -	\$ 36,453	\$ 36,453	\$ -	\$ -
Total non-cash assistance			36,453	-	-	36,453	36,453	-	-
Cash assistance:									
School Breakfast Program	10.553	121970	16,239	3,504	-	16,239	12,735	-	-
School Breakfast Program		131970	117,556	-	-	117,556	120,937	-	3,381
			133,795	3,504	-	133,795	133,672	-	3,381
National School Lunch Program - Section 11	10.555	121980	112	-	4,509	112	112	-	-
National School Lunch Program - Section 11		131980	6,131	-	-	6,012	6,019	-	7
National School Lunch Program - Section 11		121960	62,079	12,756	435,895	62,079	49,323	-	-
National School Lunch Program - Section 11		131960	443,444	-	-	415,803	437,426	-	21,623
			511,766	12,756	440,404	484,006	492,880	-	21,630
National School Lunch Program - Summer Food Service	10.559	130900-0913	1,167	-	-	-	1,167	-	1,167
National School Lunch Program - Summer Food Service		131900-0913	121	-	-	-	121	-	121
			1,288	-	-	-	1,288	-	1,288
Total cash assistance			646,849	16,260	440,404	617,801	627,840	-	26,299
Total U.S. Department of Agriculture (Cluster total)			683,302	16,260	440,404	654,254	664,293	-	26,299

The accompanying notes are an integral part of this schedule.

**HOUGHTON LAKE COMMUNITY SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2013**

Federal grantor/pass-through grantor program title	Federal CFDA number	Pass-through grantor's number	Award amount	Accrued revenue 7/1/2012	Prior year expenditures (memorandum only)	Current year receipts (cash basis)	Current year expenditures	Adjustments	Accrued revenue 6/30/2013
U.S. Department of Education:									
Passed through C.O.O.R.I.S.D.:									
Special Education Cluster:									
Special Education Flow Through Grant	84.027	100450-1112	\$ 391,500	\$ 391,500	\$ 391,500	\$ 391,500	\$ -	\$ -	\$ -
		130450-1213	378,715	-	-	339,477	378,715	-	39,238
Total Special Education			<u>770,215</u>	<u>391,500</u>	<u>391,500</u>	<u>730,977</u>	<u>378,715</u>	<u>-</u>	<u>39,238</u>
Passed through Michigan Department of Education:									
Adult Basic Education									
	84.002	121130-121777	74,360	33,217	65,464	33,217	-	-	-
		131130-131777	140,000	-	-	40,843	113,096	-	72,253
		121190-121777	18,016	13,919	13,919	13,919	-	-	-
		131190-131777	29,000	-	-	15,012	28,307	-	13,295
Total Adult Basic Education			<u>261,376</u>	<u>47,136</u>	<u>79,383</u>	<u>102,991</u>	<u>141,403</u>	<u>-</u>	<u>85,548</u>
Title I Cluster:									
Title I									
	84.010	111530-1011	745,605	-	-	(5,176)	-	(5,176)	-
		121530-1112	648,751	158,788	583,241	158,788	-	-	-
		131530-1213	827,372	-	-	507,743	779,499	-	271,756
			<u>2,221,728</u>	<u>158,788</u>	<u>583,241</u>	<u>661,355</u>	<u>779,499</u>	<u>(5,176)</u>	<u>271,756</u>
ARRA Title I, Part A	84.389	111535-1011	259,164	-	-	(23,726)	-	(23,726)	-
Total Title I Cluster			<u>2,480,892</u>	<u>158,788</u>	<u>583,241</u>	<u>637,629</u>	<u>779,499</u>	<u>(28,902)</u>	<u>271,756</u>

The accompanying notes are an integral part of this schedule.

**HOUGHTON LAKE COMMUNITY SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2013**

Federal grantor/pass-through grantor program title	Federal CFDA number	Pass-through grantor's number	Award amount	Accrued revenue 7/1/2012	Prior year expenditures (memorandum only)	Current year receipts (cash basis)	Current year expenditures	Adjustments	Accrued revenue 6/30/2013
<u>U.S. Department of Education (Concluded):</u>									
Passed through Michigan Department of Education (Concluded):									
Title II - Improving Teacher Quality	84.367	120520-1112 130520-1213	\$ 153,205 175,921	\$ 45,169 -	\$ 117,027 -	\$ 24,778 36,484	\$ - 127,690	\$ (20,391) -	\$ - 91,206
Total Title II - Improving Teacher Quality			329,126	45,169	117,027	61,262	127,690	(20,391)	91,206
Title VIB	84.358B	100660-1112 130660-1213	63,079 31,026	22,666 -	55,643 -	15,422 -	- 24,091	(7,244) -	- 24,091
Total Title VIB			94,105	22,666	55,643	15,422	24,091	(7,244)	24,091
Total Michigan Department of Education			3,165,499	273,759	835,294	817,304	1,072,683	(56,537)	472,601
Total U.S. Department of Education			3,935,714	665,259	1,226,794	1,548,281	1,451,398	(56,537)	511,839
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 4,619,016	\$ 681,519	\$ 1,667,198	\$ 2,202,535	\$ 2,115,691	\$ (56,537)	\$ 538,138

The accompanying notes are an integral part of this schedule.

**HOUGHTON LAKE COMMUNITY SCHOOLS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013**

1. Basis of presentation - The accompanying schedule of expenditures of federal awards (the "Schedule") includes the grant activity of Houghton Lake Community Schools under programs of the federal government for the year ended June 30, 2013. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Houghton Lake Community Schools, it is not intended to and does not present the financial position or changes in net position of Houghton Lake Community Schools.
2. Summary of Significant Accounting Policies - Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for States, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts (if any) shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.
3. Child Nutrition Cluster (CFDA #10.553, 10.555 and 10.559) was audited as a major program, representing 31% of expenditures. The District qualifies for low risk auditee status.
4. The threshold for distinguishing Type A and Type B programs was \$300,000.
5. Management has utilized the Grant Section Auditors Report in preparing the Schedule of Expenditures of Federal Awards.
6. Federal expenditures are reported as revenue in the following funds in the financial statements:

General fund revenue	\$ 1,540,327
Other non-major governmental funds revenue	<u>664,293</u>
	2,204,620
Plus Note 8 adjustments	56,537
Less adjustments to federal revenue prior to 2012	(41,627)
Less federal forest payments not subject to OMB Circular A-133	(11,656)
Less Note 7 adjustment not on SEFA	<u>(92,183)</u>
Total federal expenditures	<u><u>\$ 2,115,691</u></u>
7. COOR ISD passed through medicaid fees for services funds to HLCS. Fee for service funds are not reported on the Schedule of Federal Expenditures

Medicaid fees for services not reported on the SEFA	<u><u>\$ 92,183</u></u>
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8. Adjustments were made to Title I, Title I ARRA, Title II Part A, and Title VI Part B as a result of costs being disallowed. Houghton Lake Community Schools remitted these funds back to the State during the current year. Houghton Lake also recognized revenue from prior year potential paybacks.

Question cost adjustments paid to State	<u><u>\$ 56,537</u></u>
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**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

To the Board of Education
Houghton Lake Community Schools

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Houghton Lake Community Schools as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Houghton Lake Community Schools' basic financial statements and have issued our report thereon dated October 2, 2013.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Manes Costeiran PC

October 2, 2013

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Houghton Lake Community Schools

Report on Compliance for Each Major Federal Program

We have audited Houghton Lake Community Schools' compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Houghton Lake Community Schools' major federal programs for the year ended June 30, 2013. Houghton Lake Community Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Houghton Lake Community Schools' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Houghton Lake Community Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Houghton Lake Community Schools complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of Houghton Lake Community Schools is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Houghton Lake Community Schools' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Houghton Lake Community Schools' internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Maney Costeiran PC

October 2, 2013

**HOUGHTON LAKE COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013**

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: *Unmodified*

Internal control over financial reporting:

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

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

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

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

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

Type of auditors' report issued on compliance for major *Unmodified*

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? _____ Yes X No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.553, 10.555 and 10.559	Child Nutrition Cluster
Dollar threshold used to distinguish between type A and	<u> \$ 300,000 </u>
Auditee qualified as low-risk auditee?	<u> X </u> Yes _____ No

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

**HOUGHTON LAKE COMMUNITY SCHOOLS
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013**

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

October 2, 2013

To the Board of Education
Houghton Lake Community Schools

In planning and performing our audit of the financial statements of Houghton Lake Community Schools as of and for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered Houghton Lake Community Schools' internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, during our audit, we noted certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated October 2, 2013 on the financial statements of Houghton Lake Community Schools. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations. Our comments are summarized as follows:

CURRENT YEAR COMMENTS

Federal Time Keeping

We recommend the District continue improving time tracking processes in accordance with OMB Circular A-87 and in accordance with the State recommended PARs.

PRIOR COMMENTS

Disaster Recovery Plan

The District now hosts its primary student and financial applications. The District also has a number of applications and corresponding data that are also maintained by the District. While the District performs daily backups of these systems, we recommend a formal disaster recovery plan be developed and documented for in-house applications. Additionally the District may want to consider using a third party for off-site storage of critical back-up data.

Status: District no longer stores their primary student and financial applications in-house. They now utilize a third party provider for their off-site storage of critical back-up data.

Accounting Manual Needed

During our audit, we noted the District does not have an up-to-date manual of accounting policies and procedures. The purposes of such a manual are to ensure that proper accounting principles are being applied, that similar transactions are treated consistently, and that financial reports are produced in the form desired by management. A well-written accounting manual will aid in the training of new employees and assist management in delegating and segregating duties. The manual should include:

- An organizational chart,
- Job descriptions outlining duties and responsibilities,
- Descriptions of methods, procedures, and accounting principles to be followed, including explanations and examples of principle transactions,
- A chart of accounts with detailed explanation of the items to be included therein, and;

- Any other documents or forms for which uniformity of use is desired.

Status: District has completed and provided an accounting manual.

Cash Reconciliation

During the year the District changed the process for accounts payable checks which caused some difficulties in reconciling due to and due from balances between various funds. This caused delay in finalizing the review for the general fund checking account for a few months. Not reconciling the accounts on a monthly basis means that errors or other problems might not be recognized and resolved on a timely basis. Also, it is generally easier and less time-consuming to reconcile accounts while transactions are fresh in mind. During the audit it was noted that the District has taken the appropriate steps to get reconciliations back up to date and this issue is not anticipated to occur in the future.

Status: All cash reconciliations were prepared and provided in a timely manner.

This letter does not affect our report dated October 2, 2013 on the financial statements of Houghton Lake Community Schools. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations.

This report is intended solely for the information and use of management, and others within the District, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours,

Manes Costeiran PC

October 2, 2013

To the Finance Committee
Houghton Lake Community Schools

We have audited the financial statements of Houghton Lake Community Schools for the year ended June 30, 2013, and have issued our report thereon dated October 2, 2013. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

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

In planning and performing our audit, we considered Houghton Lake Community Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirement that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Houghton Lake Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Houghton Lake Community Schools' compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on Houghton Lake Community Schools' compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Houghton Lake Community Schools' compliance with those requirements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on July 15, 2013.

Significant Audit Findings

1. Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Houghton Lake Community Schools are described in Note 1 to the financial statements. During 2013 the District implemented Governmental Accounting Standard No. 62, *Codification of Accounting and Financial Reporting Guidance*, No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, and No. 65, *Items Previously Reported as Assets and Liabilities*. The application of existing policies was not changed during 2013. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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

Management's estimate of the liability of the payout for the employee compensated absences upon their retirement based on expected payout. We evaluated the key factors and assumptions used to develop the balance of compensated absences to determine that it is reasonable in relation to the financial statements taken as a whole.

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

Certain allocations on the statement of activities allocating revenue between instruction and support services have been used in preparing the statements.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. We did not identify any significant disclosures.

2. *Difficulties Encountered in Performing the Audit*

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

3. *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. August state aid revenue attributable to 2013 of \$21,140 was not recorded having a net effect to understate the change in net position and change in fund balance within the general fund. We have determined these misstatements to be insignificant to the financial statements taken as a whole as of and for the year then ended June 30, 2013.

4. *Disagreements with Management*

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

5. *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated October 2, 2013.

6. *Management Consultations with Other Independent Accountants*

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

7. *Other Audit Findings or Issues*

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

8. *Other Information in Documents Containing Audited Financial Statements*

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board of Education, management and federal awarding agencies and pass-through entities of Houghton Lake Community Schools and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Maney Costeiran PC