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HALE AREA SCHOOLS
IOSCO COUNTY, MICHIGAN

AUDITORS' REPORT
YEAR ENDED JUNE 30, 2017

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AUDITORS' REPORT

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August 18, 2017

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Independent Auditors' Report

Members of the Board of Education
Hale Area Schools
Iosco County, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Hale Area Schools, Iosco County, Michigan, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the index.

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*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Hale Area Schools, Iosco County, Michigan, as of June 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the General Fund 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 the Hale Area Schools' basic financial statements. The individual fund schedules are presented for the purpose of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 18, 2017, included in the Single Audit Report issued under a separate cover, on our consideration of the Hale Area 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 the Hale Area Schools' internal control over financial reporting and compliance.

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HALE AREA SCHOOLS

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2017

The following section presents the administration's discussion and analysis of Hale Area Schools' financial performance during the year ended June 30, 2017. Please read it in conjunction with the financial statements and other supplemental information included in the audit. This analysis is a requirement of Governmental Accounting Standards Board Statement 34 (GASB 34).

Generally accepted accounting principles (GAAP), according to GASB 34, requires the reporting of two types of financial statements: Fund Financial Statements and District -Wide Financial Statements.

Fund Financial Statements

The fund level statements are reported on a modified accrual basis. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources. Purchased capital assets are reported as expenditures in the year of acquisition. Fund financial statements report the School District's operations in more detail than the district-wide financial statements. Fund statements are provided for the General Fund, Debt Service Fund, and Food Service Fund.

District-Wide Financial Statements

The district-wide financial statements are reported using the full accrual basis of accounting. With this method, all of the District's assets and liabilities and all of the current year revenues and expenditures are reported regardless of when cash is received or paid. Capital assets and long-term obligations of the District are reported on the Statement of Net Position.

Summary of Net Position:

The comparative analysis for the net position at June 30, 2017 and June 30, 2016 follows:

	Net Position Summary District-Wide Activities	
	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Assets		
Current Assets	\$ 1,490,765	\$ 1,462,850
Capital Assets	6,964,463	7,113,938
Total Assets	8,455,228	8,576,788
Deferred Outflows of Resources	614,255	536,246
Liabilities		
Current Liabilities	466,702	449,287
Long-Term Liabilities	7,501,972	7,980,776
Total Liabilities	7,968,674	8,430,063

Net Position Summary (Continued)
District-Wide Activities

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Deferred Inflows of Resources	\$ 274,447	\$ 260,628
Net Position		
Net Investment in Capital Assets	4,060,486	3,689,166
Restricted	40,750	33,330
Unrestricted (Deficit)	(3,274,874)	(3,300,153)
Total Net Position	\$ 826,362	\$ 422,343

Analysis of Financial Position:

- The District's General Fund reported a positive fund balance of \$936,663.
- During the fiscal year ended June 30, 2017, the District's net position increased by \$404,019. This was mainly the result of current year principal payments reducing long term debt, with no new debt being issued.
- Total assets decreased by \$121,560. The majority of this decrease was due to current year capital asset disposals and depreciation expense, offset by capital asset additions.
- Total liabilities decreased by \$461,389. The majority of the decrease was due to current year debt principal payments of \$490,000.

Some of the significant factors affecting net position during the year are discussed below. A reconciliation of the change in fund balance and the change in net position can be found in the Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities in this report.

1. Change in Fund Balance

The change in fund balance for the District's governmental funds was an increase of \$7,198, which is not a significant change in fund balance.

The General Fund and the 2014 Refunding Debt did not experience significant changes in fund balance in the current year.

The change in fund balance in the Food Service Fund is shown on the Statement of Revenue, Expenditures and Changes in Fund Balances in this report and totals a decrease of \$26,597, mainly due to capital outlay purchase and expenditures exceeding revenues.

2. Capital Outlay Acquisitions

Capital Asset additions in the current fiscal year consisted of 13,389 for a refrigeration unit, \$63,418 for a lightning conversion project throughout the district, and \$21,871 for new phone system and firewall, and \$83,155 for the purchase of a new bus. Current year disposals consisted of six buses for a total loss on disposal of \$20,484.

Additional information on the District's capital assets can be found in Notes to Financial Statements, Note 5 of this report.

3. Depreciation

GASB 34 requires school districts to maintain a record of annual depreciation expense and accumulated depreciation. The net increase in accumulated depreciation is a reduction in net position. For the fiscal year ended June 30, 2017, the depreciation was \$310,824.

4. Repayment of Principal

The repayment of debt decreases the District's long-term obligations and increases net position. The amount of debt principal repayment during the fiscal year was \$490,000.

Additional information on the District's long term debt can be found in Notes to Financial Statements, Note 6 of this report.

5. Net Pension Liability

At June 30, 2017, the District's Net Pension Liability amounted to \$4,529,287. This constitutes their unfunded pension benefit obligation as of the measurement date of the Michigan Public School Employees Retirement System Plan.

Additional information on the District's Net Pension Liability can be found in Note 10 of this report.

Results of Operations:

For the fiscal years ended June 30, 2017 and June 30, 2016, the District-wide results of operations were:

	<u>2017</u>	<u>2016</u>
General Revenues:		
Property Taxes levied for General Purposes	\$ 3,137,174	\$ 3,123,111
Property Taxes levied for Debt Purposes	617,243	611,736
State of Michigan Aid – Unrestricted	47,681	121,631
Other Federal, State and Local	9,286	41,827
Gain (Loss) on Disposal of Capital Assets	(14,511)	519
Miscellaneous	60,500	0
Total General Revenues	3,857,373	3,898,824
Program Revenues:		
Charges for Services	80,518	76,732
Operating Grants and Contributions	887,643	864,084
Total Program Revenues	968,161	940,816
Total Revenues	4,825,534	4,839,640
Expenses:		
Instruction	2,055,535	2,061,840
Support Services	1,657,405	1,578,398
Transfers to Other Districts	169,663	167,619
Community Services	8,228	7,722
Food Services	281,285	270,613
Athletics	129,884	118,899
Interest on long-term debt	119,515	137,615
Total Expenses	4,421,515	4,342,706
Change in Net Position	404,019	496,934
Net Position – Beginning	422,343	(74,591)
Net Position – Ending	\$ 826,362	\$ 422,343

1. Property Taxes

The District levies 18 mills of property taxes on non-homestead property. Commercial property is exempt for 6 of the 18 mills. This revenue is one component of the total per pupil foundation allowance set by the State of

Michigan. As noted in the Results of Operations, the property taxes generated General Fund revenue of \$3.1 million during the fiscal year ended June 30, 2017.

The District levied 2.15 mills for debt service on the 2014 Refunding Bond. The debt service revenue generated was \$617 thousand and was included in the debt service fund.

2. State of Michigan Aid, Unrestricted

The State of Michigan pays a portion of the foundation allowance as unrestricted aid based upon the following variables: the per pupil foundation allowance, student enrollment and the District's non-homestead property tax levy. The non-homestead property taxes are deducted from the calculated total foundation allowance to determine the amount paid by the State of Michigan. As noted in the Results of Operations above, Unrestricted State Aid was \$47 thousand. The portion of the foundation allowance payment that is restricted for special education was \$67 thousand and is included under Program Revenues.

a. **State of Michigan State Aid Act - per pupil foundation allowance.** The state foundation allowance was \$7,511 per pupil for the current year.

b. **Student Enrollment** - The District's student enrollment for the October count of 2016 was 380 students. This was a decrease of 29 pupils from the prior year fall count. For fiscal year 2016-2017, the District qualified under the Michigan School Aid Act for a three year average of blended pupil counts. The annual membership average is blended at 90% of the current fiscal year fall count and 10% of the current fiscal year winter count. The State Aid Membership used for payment calculations for 2016-17 was 413.58. This reflected the average of the blended counts for fiscal years 2015-2017. The average membership of 413.58, multiplied by the foundation allowance, resulted in a total foundation allowance of \$3.1 million.

Total Revenues

The total revenues of the District were \$4.8 million, a decrease of \$14 thousand from the previous year, which is less than 1%.

Program specific revenues in the form of charges for services, grants and contributions accounted for \$968 thousand or 20% of the total. As noted on the Statement of Activities of this report, general revenues including unrestricted state aid and property taxes provided 80% of the total.

General Fund Budget and Actual Results

The Uniform Budgeting and Accounting Act of the State of Michigan requires that the Board of Education approve the original budget for the fiscal year prior to July 1, before student enrollment counts, approved federal grant awards and other information is known. Therefore, it is expected that there will be changes between the initial budget and subsequent amendments, as more information becomes available. The budget was amended several times. Page 39 of the Audit summarizes the comparative budget and actual results.

General Fund Revenue – Actual vs. Budget

Total General Fund revenue was \$16,207 more than budgeted. The variance between the actual revenues and the final budget was mostly the result of receiving about \$14,600 in a Consumers Rebate Grant, that was not budgeted for.

A detailed comparison of local, state and federal sources for budget and actual revenues can be found in the General Fund Details of Revenue Compared to Budget statement in this report.

General Fund Expenditures vs. Budget

Total expenditures were \$30,776 less than budgeted. The variance between the actual expenditures and the final budget was mostly the result of receiving about \$31,300 in e-rate reimbursements to offset phone and internet expenses, that were not budgeted for.

A detailed comparison of budget and actual expenditures can be found in the General Fund Details of Expenditures Compared to Budget statement in this report.

	Revenue	Expenditures
General Fund:		
Original Budget	\$ 4,044,456	\$ 4,123,105
Final Budget	3,961,531	4,002,022
Actual	3,977,738	3,971,246
Variance	\$ 16,207	\$ 30,776
% of Budget	0.4%	0.8%

Economic Factors and Next Year's Budgets

Hale Area Schools' current financial position is very good, with a general fund balance that stood at 20.53% of annual operating expenses at the end of the 2016/2017 fiscal year. After enduring a decade of steadily declining revenue the district can look forward to the probability of stabilized revenue going forward due to its recent move to "out of formula" status. Hale Area Schools went "out of formula" in 2016/2017. If the district were to have remained "in formula", every decline in enrollment would have necessitated a proportional reduction in expenses. The new out of formula situation means that even if enrollment continues to decline, reductions in revenue and expenses will be far more modest than they would have been had the district remained in formula. Consequently, the out of formula situation has dramatically reduced the influence of enrollment on district finances. Going forward, more than three quarters of the district's revenue will be generated from local sources, rather than the state aid formula and foundation grant which are directly linked to enrollment. Local property taxes will be the primary source of revenue in the years to come. This is a very positive development for district finances. The out of formula status means revenue will likely be more stable, predictable, and over time potentially more abundant.

It appears likely the District will go out of formula for "31A" or "At Risk" funding in the next two or three years. Current legislation indicates the probability of losing 70% of that revenue by 2018/2019 or 2019/2020. If that development comes to fruition, the District will lose about \$160,000 a year in revenue. That would translate into 4% revenue reduction. The District currently has about \$86,000 in 31A "carry over" that may allow us to taper that revenue stream off less abruptly. If, and when, the 31A revenue is cut by 70%, Hale Area Schools can probably anticipate relatively stable revenue streams thereafter.

The District has made significant progress in recent years with respect to long term financial planning. The facilities are in good condition, with no significant expenditures projected to be on the horizon. The installation of energy efficient LED fixtures throughout the facility in 2016/2017 will produce savings for years to come. The entire fleet of busses for active routes have been replaced in the last three years so that the purchase of a bus every other year going forward should serve this need. We have budgeted to replace the front sidewalk in 2017/2018.

The IRESA has a CTE millage on the ballot for November of 2017. If that millage were to pass it would save Hale Area Schools about \$90,000- \$100,000 a year in payments to the IRESA for the provision of CTE programming.

With revenue likely to have been mostly stabilized, and little significant infrastructure spending on the horizon, the primary concern for prudent fiscal management going forward will likely be in the area of employee compensation. Negotiations with employee associations currently underway appear likely to produce substantial salary increases.

This likely expense increase will, in all probability, eliminate the financial cushion that, in recent years, has permitted the District to catch up on infrastructure needs without a sinking fund millage. Should increases in employee compensation be the cause of budget deficits in the future, smaller cohorts in the lower grades will likely permit reductions in force if necessary.

To summarize: the District is in very good financial condition. Reasonably prudent fiscal management that matches expenses to revenue is likely all that will be required going forward to maintain fiscal health.

Requests for Information

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

Hale Area Schools
Office of the Superintendent
200 West Main Street
Hale, MI 48739

HALE AREA SCHOOLS
Losco County, Michigan

STATEMENT OF NET POSITION
June 30, 2017

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash and Cash Equivalents (Note 3)	\$ 1,196,015
Receivables:	
Accounts, Net	48,236
Due from Other Governmental Units	224,640
Inventory:	
Supplies	4,127
Prepaid Items	17,747
Noncurrent Assets:	
Capital Assets Not Being Depreciated (Note 5)	18,801
Capital Assets, Net of Accumulated Depreciated (Note 5)	<u>6,945,662</u>
 Total Assets	 <u>8,455,228</u>
<u>Deferred Outflows of Resources</u>	
Deferred Charge on Refunding	54,222
Deferred Amount on Pension Expense Related to Net Pension Liability (Note 10)	<u>560,033</u>
 Total Deferred Outflows of Resources	 <u>614,255</u>
<u>Liabilities</u>	
Accounts Payable	38,147
Due to Other Governmental Units	17,197
Interest Payable	18,496
Payroll Deductions and Withholdings	12,240
Accrued Expenses	133,903
Salaries Payable	160,793
Unearned Revenue (Note 7)	85,926
Long-Term Liabilities	
Due within one year (Note 6)	551,639
Due in more than one year (Note 6)	2,421,046
Net Pension Liability (Note 10)	<u>4,529,287</u>
 Total Liabilities	 <u>7,968,674</u>
<u>Deferred Inflows of Resources</u>	
Deferred Amount on Net Pension Liability (Note 10)	<u>274,447</u>
<u>Net Position</u>	
Net Investment in Capital Assets	4,060,486
Restricted For:	
Debt Retirement	40,750
Unrestricted (Deficit)	<u>(3,274,874)</u>
 Total Net Position	 <u>\$ 826,362</u>

The accompanying notes to financial statements are an integral part of this statement.

HALE AREA SCHOOLS
Iosco County, Michigan

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017

<u>Functions/Programs</u>	<u>Expenses</u>	Program Revenues			Net (Expenses) Revenue and Change in Net Position
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Government Type Activities</u>
Instruction	\$ 2,055,535	\$ 0	\$ 471,296	\$ 0	\$ (1,584,239)
Support Services	1,657,405	43,808	178,385	0	(1,435,212)
Transfers to Other Districts	169,663	0	0	0	(169,663)
Community Services	8,228	0	0	0	(8,228)
Food Services	281,285	21,755	237,962	0	(21,568)
Athletics	129,884	14,955	0	0	(114,929)
Interest on Long-Term Debt	<u>119,515</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(119,515)</u>
 Total	 <u>\$ 4,421,515</u>	 <u>\$ 80,518</u>	 <u>\$ 887,643</u>	 <u>\$ 0</u>	 <u>(3,453,354)</u>
 General Revenues:					
Property Taxes, Levied for General Purposes					3,137,174
Property Taxes, Levied for Debt Purposes					617,243
State School Aid - Unrestricted					47,681
Investment Earnings					9,286
Gain (Loss) on Disposal of Capital Assets					(14,511)
Miscellaneous					<u>60,500</u>
Total General Revenues					<u>3,857,373</u>
 Change in Net Position					 404,019
 Net Position - Beginning					 <u>422,343</u>
 Net Position - Ending					 <u>\$ 826,362</u>

The accompanying notes to financial statements are an integral part of this statement.

HALE AREA SCHOOLS
Iosco County, Michigan

BALANCE SHEET
 GOVERNMENTAL FUNDS
June 30, 2017

	<u>General Fund</u>	<u>Debt Retirement Fund</u>	<u>Other Governmental Fund</u>	<u>Total Governmental Funds</u>
<u>Assets</u>				
Cash and Cash Equivalents (Note 3)	\$ 1,152,027	\$ 40,745	\$ 3,243	\$ 1,196,015
Receivables:				
Accounts, Net	48,231	5	0	48,236
Due From Other Governmental Units	210,824	0	13,816	224,640
Due from Other Funds (Note 4)	0	0	47,339	47,339
Inventory:				
Supplies	0	0	4,127	4,127
Prepaid Items	<u>17,717</u>	<u>0</u>	<u>30</u>	<u>17,747</u>
 Total Assets	 <u>\$ 1,428,799</u>	 <u>\$ 40,750</u>	 <u>\$ 68,555</u>	 <u>\$ 1,538,104</u>
 <u>Liabilities</u>				
Accounts Payable	\$ 34,894	\$ 0	\$ 3,253	\$ 38,147
Due to Other Governmental Units	17,197	0	0	17,197
Due to Other Funds (Note 4)	47,339	0	0	47,339
Payroll Deductions and Withholdings	12,240	0	0	12,240
Accrued Expenditures	133,747	0	156	133,903
Salaries Payable	160,793	0	0	160,793
Unearned Revenue (Note 7)	<u>85,926</u>	<u>0</u>	<u>0</u>	<u>85,926</u>
Total Liabilities	<u>492,136</u>	<u>0</u>	<u>3,409</u>	<u>495,545</u>
 <u>Fund Equity</u>				
Fund Balances:				
Nonspendable:				
Inventory	0	0	4,127	4,127
Prepaid Items	17,717	0	30	17,747
Restricted For:				
Debt Retirement	0	40,750	0	40,750
Assigned to:				
Food Service	0	0	60,989	60,989
Unassigned	<u>918,946</u>	<u>0</u>	<u>0</u>	<u>918,946</u>
Total Fund Equity	<u>936,663</u>	<u>40,750</u>	<u>65,146</u>	<u>1,042,559</u>
 Total Liabilities and Fund Equity	 <u>\$ 1,428,799</u>	 <u>\$ 40,750</u>	 <u>\$ 68,555</u>	 <u>\$ 1,538,104</u>

The accompanying notes to financial statements are an integral part of this statement.

HALE AREA SCHOOLS
Losco County, Michigan

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
 TO NET POSITION OF GOVERNMENTAL ACTIVITIES
June 30, 2017

Total Governmental Fund Balances	\$	1,042,559
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. Capital assets at the year end consist of:</p>		
Capital Asset Cost	\$	11,752,072
Capital Asset Accumulated Depreciation		<u>(4,787,609)</u>
		6,964,463
<p>Certain liabilities are not due and payable in the current period and are not reported in the funds:</p>		
Accrued Interest on Long-term Liabilities		(18,496)
<p>Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds:</p>		
Deferred outflows of resources from pension expenses subsequent to the measurement date of net pension liability		560,033
Deferred inflows of resources resulting from net pension liability		<u>(274,447)</u>
		285,586
<p>Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year end consist of:</p>		
Bonds Payable (Net of Unamortized Premium)		(2,958,199)
Compensated Absences Payable		(14,486)
Deferred Charge on Refunding		54,222
Net Pension Liability		<u>(4,529,287)</u>
		<u>(7,447,750)</u>
Total Net Position - Governmental Activities	\$	<u><u>826,362</u></u>

The accompanying notes to financial statements are an integral part of this statement.

HALE AREA SCHOOLS
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
For the Year Ended June 30, 2017

		Debt Retirement Fund	Other Governmental Fund	
	General Fund	2014 Refunding Debt	Food Service Fund	Total Governmental Funds
<u>Revenues</u>				
Local Sources	\$ 3,240,173	\$ 619,242	\$ 22,622	\$ 3,882,037
State Sources	444,377	0	12,558	456,935
Federal Sources	<u>293,188</u>	<u>0</u>	<u>225,818</u>	<u>519,006</u>
Total Revenues	<u>3,977,738</u>	<u>619,242</u>	<u>260,998</u>	<u>4,857,978</u>
<u>Expenditures</u>				
Current:				
Instruction	1,929,961	0	0	1,929,961
Support Services	1,524,315	0	0	1,524,315
Community Services	7,621	0	0	7,621
Food Services	0	0	260,296	260,296
Athletics	139,452	0	0	139,452
Payments to Other Public School Districts	169,663	0	0	169,663
Capital Outlay	168,444	0	13,389	181,833
Debt Service:				
Principal Retirement	25,000	465,000	0	490,000
Interest and Fees on Long-Term Debt	<u>6,790</u>	<u>146,822</u>	<u>0</u>	<u>153,612</u>
Total Expenditures	<u>3,971,246</u>	<u>611,822</u>	<u>273,685</u>	<u>4,856,753</u>
Excess of Revenue Over (Under) Expenditures	<u>6,492</u>	<u>7,420</u>	<u>(12,687)</u>	<u>1,225</u>
<u>Other Financing Sources (Uses)</u>				
Sale of Capital Assets	5,973	0	0	5,973
Operating Transfers In (Note 8)	13,910	0	0	13,910
Operating Transfers Out (Note 8)	<u>0</u>	<u>0</u>	<u>(13,910)</u>	<u>(13,910)</u>
Total Other Financing Sources (Uses)	<u>19,883</u>	<u>0</u>	<u>(13,910)</u>	<u>5,973</u>
Net Change in Fund Balances	26,375	7,420	(26,597)	7,198
Fund Balances - Beginning of Year	<u>910,288</u>	<u>33,330</u>	<u>91,743</u>	<u>1,035,361</u>
Fund Balances - End of Year	<u>\$ 936,663</u>	<u>\$ 40,750</u>	<u>\$ 65,146</u>	<u>\$ 1,042,559</u>

The accompanying notes to financial statements are an integral part of this statement.

HALE AREA SCHOOLS
losco County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017

Total Net Change in Fund Balances - Governmental Funds	\$	7,198
<p>Amounts reported for governmental activities in the statement of activities are different because:</p> <p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.</p>		
Current Year Depreciation Expense	\$ (310,824)	
Capital Outlays Reported in the Governmental Funds	181,833	
Gain (loss) on disposal of capital assets	<u>(20,484)</u>	(149,475)
<p>Governmental funds report district pension contributions as expenditures. However, in the statement of activities, the cost of pension benefits earned, net of employee contributions, is reported as pension expense. The following amounts represent the current year net changes:</p>		
Net Pension Liability	(51,759)	
Actual Pension Contributions and the Cost of Benefits Earned, net of Employee Contributions	88,853	
Deferred Inflows on Net Pension Liability	<u>(13,819)</u>	23,275
<p>Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount of repayments reported as expenditures in the governmental funds:</p>		
Bonds Payable		490,000
<p>Governmental funds report the effect of issuance activity, discounts, and premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of these differences in the treatment of general obligation bonds and related items is as follows:</p>		
Amortization of Deferred Bond Costs and Bond Premiums (Net)		30,795
<p>Expenses 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. The effect of the treatment of these activities are as follows:</p>		
Interest Payable	3,302	
Compensated Absences	<u>(1,076)</u>	<u>2,226</u>
Change in Net Position of Governmental Activities	\$	<u><u>404,019</u></u>

The accompanying notes to financial statements are an integral part of this statement.

HALE AREA SCHOOLS
Iosco County, Michigan

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
June 30, 2017

	<u>Student Activity</u>
<u>Assets</u>	
Cash and Cash Equivalents (Note 3)	\$ <u><u>70,008</u></u>
<u>Liabilities</u>	
Due to Student Groups	\$ <u><u>70,008</u></u>

The accompanying notes to financial statements are an integral part of this statement.

HALE AREA SCHOOLS
Losco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Hale Area Schools (School District) conform to accounting principles generally accepted in the United States of America (GAAP) applicable to governments. The School District is considered to be a local government unit. The following is a summary of the significant accounting policies:

A. Reporting Entity

The School District operates under an elected School Board (seven members) and provides services to students in grades K-12. The board is responsible for adopting and amending budgets and for administering the school programs in accordance with governing laws.

The accompanying basic financial statements have been prepared in accordance with accounting principles generally accepted (GAAP) in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District's reporting entity applies all relevant GASB pronouncements for determining the various governmental organizations to be included in the reporting entity. Hale Area Schools' Board of Education (Board) is the primary government which has oversight responsibility and control over all activities related to public school education in the area served by Hale Area Schools. The Board receives funding from local, state, and federal government sources and must comply with the requirements of these funding source entities. As such, the Board is not included in any other governmental "reporting entity" as defined in GASB pronouncements since the Board members are a publicly elected governing body that has separate legal standing and is fiscally independent of other governmental entities.

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain School District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the School District are grouped into the categories governmental and fiduciary.

Governmental Funds

Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the School District's major governmental funds:

General Fund - The General Fund is the general operating fund of the School District. It is used to account for all financial resources except those required to be accounted for in another fund.

2014 Refunding Debt Fund – This fund is used to account for the servicing of debt activities relative to the refunding debt issue.

The other governmental funds of the School District account for grants and other resources whose use is restricted for a particular purpose, and the accumulation of resources for, and the payment of debt.

HALE AREA SCHOOLS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Fund Accounting (Continued)

Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. The School District's fiduciary funds consist of agency funds which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency funds are used to account for amounts held for student and employee groups.

C. Basis of Presentation

Government-wide Financial Statements:

The statement of net position and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the School District that are governmental and those that are considered business-type activities. The School District does not currently have any business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

Net position is reported as restricted when constraints placed on net position use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net position restricted for other purposes result from special revenue funds and the restrictions on their net position use. Restricted assets are used first to fund appropriations before unrestricted assets are used.

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

Fund Financial Statements:

Fund financial statements report detailed information about the School District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

HALE AREA SCHOOLS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation (Continued)

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenue, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions:

Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within 60 days of the fiscal year-end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available in advance, interest, tuition, grants, student fees and rentals.

Deferred Outflows/Inflows of Resources:

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

HALE AREA SCHOOLS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Accounting (Continued)

Expenses/Expenditures:

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

E. Cash and Cash Equivalents

During the fiscal year ended June 30, 2017, investments included the Michigan Liquid Asset Fund (MILAF). MILAF is an investment pool, which allows school districts within the State of Michigan to pool their funds for investment purposes. Investments in MILAF are valued at cost which equals market value.

For presentation on the financial statements, investments in the cash management pools and investments with an original maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

F. Receivables

Receivables generally consist of grants, state aid, and other. All receivables are net of estimated uncollectible accounts. Receivables are recognized to the extent the amounts are determined material and substantiated, not only by supporting documentation but also by a reasonable systematic method of determining their existence, completeness, valuation, and collectability.

The allowance for doubtful accounts at June 30, 2017 was \$0.

G. Due From Other Governmental Units

This represents amounts receivable from the State of Michigan and other governmental units for federal, state and local reimbursable programs.

H. Prepaid Items

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both the government-wide and fund financial statements.

I. Inventory – Supplies

Inventory consists of expendable supplies held for consumption. Inventory is stated at cost and recorded as an expenditure/expense in the governmental and government-wide financial statements when used.

HALE AREA SCHOOLS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Capital Assets

General capital assets are those assets not specifically related to activities reported in proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) using a \$5,000 capitalization threshold and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Descriptions</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and Improvements	15 - 50 years
Site Improvements	20 years
Furniture, Fixtures and Equipment	5 - 20 years
Vehicles and Buses	8 years

K. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "due from/to other funds". These amounts are eliminated in the governmental columns of the statement of net position.

L. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from governmental funds are reported as a liability in the fund financial statements at the time they are incurred, to the extent that they will be paid from current, expendable, financial resources. In general, payments made within 60 days after year end are considered to have been made with current available financial resources. However, bonds and other long-term obligations, compensated absences, claims and judgments, contractually required pension contributions and special termination benefits that will be paid from governmental funds are recognized as a liability in the fund financial statements when they become due for payment.

M. Compensated Absences

The School District reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Sick leave benefits are accrued as a liability using the vesting method. An accrual for earned sick leave is made based on accumulated sick leave and wage rates at year-end, taking into consideration limits specified in the School District's termination policy.

The entire compensated absences liability is reported on the government-wide financial statements. For the governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts, if any, are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported in the governmental fund financial statements.

HALE AREA SCHOOLS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Net Pension Liability

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Michigan Public School Employees Retirement System (MPSERS) and additions to/deductions from MPSERS fiduciary net position have been determined on the same basis as they are reported by MPSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

O. Net Position

Net position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. The School District reports three categories of net position as follows:

Net investment in capital assets - consists of net capital assets reduced by outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets and increased by balances of deferred outflows of resources related to those assets.

Restricted net position - net position is considered restricted if their use is constrained to a particular purpose. Restrictions are imposed by external organizations such as federal or state laws or buyers of the School District's bonds. Restricted net position is reduced by liabilities and deferred inflows of resources related to the restricted assets.

Unrestricted net position - consists of all other net position that does not meet the definition of the above two components and is available for general use by the School District.

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, management applies restricted net position first, unless a determination is made to use unrestricted net position. The School District's policy concerning which to apply first varies with the intended use and legal requirements. Management typically makes this decision on a transactional basis at the incurrence of the expense.

P. Fund Balances

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form—pre-paid items or inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

Restricted fund balance. This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance. These amounts can only be used for specific purposes pursuant to constraints imposed by formal school board action—the District's highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the school board removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

HALE AREA SCHOOLS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Fund Balances (Continued)

Assigned fund balance. This classification reflects the amounts constrained by the District's "intent" to be used for specific purposes, but are neither restricted nor committed. The school board or personnel authorized by the school board have the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed. If any portion of existing fund balance will be used to eliminate a projected deficit in the budget for the subsequent year, this amount will also be categorized as assigned fund balance.

Unassigned fund balance. This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, it is the District's policy to use externally restricted resources first, then unrestricted resources—committed, assigned, and unassigned—in order as needed.

Q. Property Taxes

The School District levies its property taxes on July 1 and various municipalities collect its property taxes and remit them to the School District through February. The delinquent real property taxes of the School District are purchased by the County, and delinquent personal property taxes continue to be collected by the municipalities and recorded as revenue as they are collected. The County sells tax notes, the proceeds of which have been used to pay the School District for these delinquent real property taxes. These delinquent real property taxes have been recorded as revenue in the current year.

R. Foundation Revenue

The State of Michigan has adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance 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 School District. For the year ended June 30, 2017, the foundation allowance was based on the average of the fiscal years 2015, 2016 and 2017 blended pupil membership counts.

The state portion of the foundation allowance is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-prequalified property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period (currently the fiscal year) and is funded through 11 payments from October 2016 - August 2017. The local revenue is recognized as outlined in Note 1 Accounting for Property Taxes.

S. State Categorical Revenue

The School District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received which are not expended by the close of the fiscal year are recorded as unearned revenue.

HALE AREA SCHOOLS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

T. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

U. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the fiscal year ended June 30, 2017.

V. Economic Dependency

The School District received approximately 9% of their revenue from the Michigan Department of Education. Due to the significance of this revenue source to the School District, the School District is considered to be economically dependent.

W. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. 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.

X. Budgetary Policies and Data

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

Hale Area Schools follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The School District's Superintendent submits to the Board a proposed budget prior to July 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Budgeted amounts are as originally adopted, or as amended by the Board throughout the year. Individual amendments were not material in relation to the original appropriations.
4. Appropriations lapse at year-end and therefore cancel all encumbrances. These appropriations are re-established at the beginning of the following year.

Y. Reclassifications

Certain prior year amounts have been reclassified to conform with the current year presentation.

HALE AREA SCHOOLS
Losco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2017

NOTE 2 - CHANGE IN ACCOUNTING PRINCIPLES

For 2017, the School District has implemented Governmental Accounting Standards Board (GASB) Statement Number 77, "Tax Abatement Disclosures". GASB Statement No. 77 requires governments to disclose certain information about tax abatement agreements made to foster economic development or otherwise benefit the government or its citizens.

The adoption of these standards did not have a significant impact on the amounts reported in these financial statements.

For 2018, the School District will be required to implement GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions". GASB Statement No. 75 improves accounting and financial reporting by state and local governments by establishing standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures.

NOTE 3 - DEPOSITS AND INVESTMENTS

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

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash and Cash Equivalents	\$ <u>1,196,015</u>	\$ <u>70,008</u>	\$ <u>1,266,023</u>

The breakdown between deposits and investments is as follows:

	Primary Government
Bank Deposits (Checking and Savings Accounts)	\$ 643,778
Investments in Financial Institution Pooled Funds	<u>622,245</u>
Total	<u>\$ 1,266,023</u>

As of June 30, 2017, the School District had the following investments.

Investment Type	Fair Value	Specific Identification Maturities
Investment pools	\$ <u>622,245</u>	Daily

Credit Risk

State law authorizes investments in investment pools as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a school district. As of June 30, 2017, the School District's investment in the MILAF investment pool was rated AAAM by Standard & Poor's.

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2017, \$176,659 of the School District's bank balance of \$801,467 was exposed to custodial credit risk because it was uninsured and uncollateralized.

HALE AREA SCHOOLS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2017

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the School 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 School 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 approved in the District's investment policy which is in accordance with State law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the School District will do business.

Concentration of Credit Risk, Interest Rate Risk and Foreign Currency Risk

The School District's investment policy does not address concentration of credit risk, interest rate risk or foreign currency risk.

NOTE 4 - INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables as of June 30, 2017 were as follows:

<u>DUE TO</u>	<u>DUE FROM</u> <u>General Fund</u>
Food Service Fund	\$ <u>47,339</u>

These balances result from the time lag between the dates that interfund goods and services are provided, transactions are recorded in the accounting system, and payments between funds are made.

HALE AREA SCHOOLS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2017

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2017, was as follows:

	<u>Balance</u> <u>July 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2017</u>
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ <u>18,801</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>18,801</u>
Capital Assets Being Depreciated:				
Buildings and Improvements	9,489,456	63,418	0	9,552,874
Site Improvements	1,223,219	0	0	1,223,219
Furniture, Fixtures and Equipment	284,792	35,260	0	320,052
Vehicles and Buses	<u>730,547</u>	<u>83,155</u>	<u>(176,576)</u>	<u>637,126</u>
Subtotal	<u>11,728,014</u>	<u>181,833</u>	<u>(176,576)</u>	<u>11,733,271</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(3,096,991)	(182,300)	0	(3,279,291)
Site Improvements	(952,278)	(59,245)	0	(1,011,523)
Furniture, Fixtures and Equipment	(232,433)	(17,657)	0	(250,090)
Vehicles and Buses	<u>(351,175)</u>	<u>(51,622)</u>	<u>156,092</u>	<u>(246,705)</u>
Subtotal	<u>(4,632,877)</u>	<u>(310,824)</u>	<u>156,092</u>	<u>(4,787,609)</u>
Capital Assets Being Depreciated	<u>7,095,137</u>	<u>(128,991)</u>	<u>(20,484)</u>	<u>6,945,662</u>
Governmental Activities Total				
Capital Assets - Net of Depreciation	<u>\$ 7,113,938</u>	<u>\$ (128,991)</u>	<u>\$ (20,484)</u>	<u>\$ 6,964,463</u>

Depreciation expense was charged to activities of the School District as follows:

Governmental Activities

Instruction	\$ 153,406
Support Services	125,449
Community Services	607
Food Services	21,784
Athletics	<u>9,578</u>
	<u>\$ 310,824</u>

HALE AREA SCHOOLS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2017

NOTE 6 - LONG-TERM LIABILITIES

A. Bonds Payable

	Date of Contract	Principal Due	Interest	Total Obligation
2002 Athletic Facility:				
The bonds dated December 1, 2001 which bear interest at 4.85% are due serially each May 1 through 2021. This debt is paid by the General Fund.				
	2002	\$ 115,000	\$ 14,307	\$ 129,307
2014 Refunding Bond Issue:				
The bonds dated March 13, 2014 which bear interest at 4.00% are due serially each May 1 through 2022. This debt is paid by the 2014 Debt Retirement Fund.				
	2014	<u>2,635,000</u>	<u>325,000</u>	<u>2,960,000</u>
Total Bonds Payable		<u>\$ 2,750,000</u>	<u>\$ 339,307</u>	<u>\$ 3,089,307</u>

The annual principal and interest requirements for long-term debt for the years after June 30, 2017 are as follows:

	Governmental Activities		
	Principal	Interest	Total
2018	\$ 510,000	\$ 110,977	\$ 620,977
2019	535,000	90,365	625,365
2020	555,000	68,710	623,710
2021	575,000	46,255	621,255
2022	<u>575,000</u>	<u>23,000</u>	<u>598,000</u>
Total	<u>\$ 2,750,000</u>	<u>\$ 339,307</u>	<u>\$ 3,089,307</u>

B. Compensated Absences Payable

The School District has an employee benefit plan that allows employees to accumulate a limited amount of sick pay days based on contracts and an unlimited amount of vacation pay days. The amount of accumulated sick and vacation pay liability, recorded in the government-wide statements, for the School District was \$14,486 at June 30, 2017, of which \$0 was the estimated current portion.

HALE AREA SCHOOLS
losco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2017

NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)

C. Changes in Long-Term Liabilities

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

	<u>Balance</u> <u>July 1, 2016</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2017</u>	<u>Amount</u> <u>Due in</u> <u>One Year</u>
<u>Governmental Activities</u>					
Bonds	\$ 3,240,000	\$ 0	\$ (490,000)	\$ 2,750,000	\$ 510,000
Deferred Amounts for Issuance					
Premium	<u>249,838</u>	<u>0</u>	<u>(41,639)</u>	<u>208,199</u>	<u>41,639</u>
Total Bonds Payable, Net	3,489,838	0	(531,639)	2,958,199	551,639
Compensated Absences	<u>13,410</u>	<u>1,076</u> *	<u>0</u>	<u>14,486</u>	<u>0</u>
Total Long-Term Liabilities	<u>\$ 3,503,248</u>	<u>\$ 1,076</u>	<u>\$ (531,639)</u>	<u>\$ 2,972,685</u>	<u>\$ 551,639</u>

*Represents net of additions and retirements for the year.

The payment dates of compensated absences payable are undeterminable.

The interest expense on long-term obligations for the year was \$119,515.

Compensated absences for the governmental funds are generally liquidated by the General and Food Service Funds.

NOTE 7 - UNEARNED REVENUE

Governmental Funds/Activities unearned revenue recognition is in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of unearned revenue are as follows:

At Risk	\$ <u>85,926</u>
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NOTE 8 - OPERATING TRANSFERS

During the year ended June 30, 2017, the following transfers were made:

<u>TRANSFER TO</u>	<u>TRANSFER FROM</u> <u>Food Service Fund</u>
General Fund	\$ <u>13,910</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

HALE AREA SCHOOLS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2017

NOTE 9 - EXCESS OF EXPENDITURES OVER APPROPRIATION IN BUDGETARY FUNDS

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the School District's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the School District for these budgetary funds were adopted at the functional level.

During the year ended June 30, 2017, the School District incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated as follows:

<u>Fund/Function</u>	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
General Fund/Instruction	\$ 1,920,935	\$ 1,929,961	\$ 9,026
General Fund/Community Services	\$ 6,975	\$ 7,621	\$ 646
General Fund/Athletics	\$ 139,022	\$ 139,452	\$ 430
General Fund/Payments to Other Public School Districts	\$ 163,140	\$ 169,663	\$ 6,523

NOTE 10 - DEFINED BENEFIT PLAN

Organization

Plan Description

The Michigan Public School Employees' Retirement System (System or MPSERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. The board consists of twelve members - eleven appointed by the Governor and the State Superintendent of Instruction, who serves as an ex-officio member.

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

The System's financial statements are available at www.michigan.gov/mpsers-cafr.

Benefits Provided

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Depending on the plan option selected, member retirement benefits are determined by final average compensation, years of service, and a pension factor ranging from 1.25 percent to 1.50 percent. 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 who leaves Michigan public school employment may request a refund of his or her member contributions to the retirement system account if applicable. 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.

HALE AREA SCHOOLS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2017

NOTE 10 - DEFINED BENEFIT PLAN (CONTINUED)

Contributions and Funding Status

Employers are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of active and retired members. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2016 valuation will be amortized over a 20 year period for the 2016 fiscal year.

The schedule below summarizes pension contribution rates in effect for fiscal year 2016.

<u>Pension Contribution Rates</u>		
<u>Benefit Structure</u>	<u>Member</u>	<u>Employer</u>
Basic	0.0 - 4.0%	18.95%
Member Investment Plan	3.0 - 7.0	18.95
Pension Plus	3.0 - 6.4	17.73
Defined Contribution	0.0	14.56

Required contributions to the pension plan from the School District were \$407,659 for the year ended September 30, 2016.

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

At June 30, 2017, the School District reported a liability of \$4,529,287 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2015. The School District's proportionate share of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2016, the School District's proportionate share percent was 0.01815%, which was a decrease of 0.00018% from its proportion measured as of September 30, 2015.

For the year ended June 30, 2017, the School District recognized pension expense of \$391,533. At June 30, 2017, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

HALE AREA SCHOOLS
Losco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2017

NOTE 10 - DEFINED BENEFIT PLAN (CONTINUED)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 56,447	\$ 10,735
Change of assumptions	70,812	0
Net difference between projected and actual earnings on pension plan investments	75,277	0
Changes in proportion and differences between School District contributions and proportionate share of contributions	7,569	123,114
School District contributions subsequent to the measurement date	349,928	0
Total	\$ 560,033	\$ 133,849

In addition to the deferred inflows of resources noted above, the District also has \$140,598 in deferred inflows related to the 147(C) UAAL Stabilization allocation from the State of Michigan at year end.

\$209,330 reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Deferred (Inflows) and Deferred Outflows of Resources by Year

Year Ended June 30	Amount
2016	\$ 204,833
2017	(10,421)
2018	78,167
2019	13,007
	\$ 285,586

Actuarial Valuations and Assumptions

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

HALE AREA SCHOOLS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2017

NOTE 10 - DEFINED BENEFIT PLAN (CONTINUED)

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions:

- λ Valuation Date: September 30, 2015
- λ Actuarial Cost Method: Entry Age, Normal
- λ Wage Inflation Rate: 3.5%
- λ Investment Rate of Returns:
 - MIP and Basic Plans (Non-Hybrid): 8.0%
 - Pension Plans Plan (Hybrid): 7.0%
- λ Projected Salary Increases: 3.5 - 12.3%, including wage inflation at 3.5%
- λ Cost-of-Living Pension Adjustments: 3% Annual Non-Compounded for MIP Members
- Mortality: RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

Notes:

- Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2016, is based on the results of an actuarial valuation date of September 30, 2015, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 4.6273
- λ Recognition period for assets in years is 5.0000
- Full actuarial assumptions are available in the 2016 MPSERS Comprehensive Annual Financial Report (www.michigan.gov/mpsers-cafr).

Long-Term Expected Rate of Return On Plan Assets

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2016, are summarized in the following table:

HALE AREA SCHOOLS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2017

NOTE 10 - DEFINED BENEFIT PLAN (CONTINUED)

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

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

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

Discount Rate

A discount rate of 8.0% was used to measure the total pension liability (7.0% for the Pension Plus plan, a hybrid plan). This discount rate was based on the long term expected rate of return on pension plan investments of 8.0% (7.0% for the Pension Plus plan). The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

As required by GASB Statement No. 68, the following presents the School District's proportionate share of the net pension liability, calculated using a discount rate of 8.0% (7.0% for the Hybrid Plan), as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher:

1% Decrease (Non-Hybrid/Hybrid) 7.0% / 6.0%	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid) 8.0% / 7.0%	1% Increase (Non-Hybrid/Hybrid) 9.0% / 8.0%
\$ 5,832,582	\$ 4,529,287	\$ 3,430,484

Michigan Public School Employees' Retirement System (MPERS) Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPERS CAFR, available at www.michigan.gov/mpers-cafr.

Payables to the Michigan Public School Employees' Retirement System (MPERS)

At June 30, 2017, there were reported payables to MPERS of \$101,270, which accounts for the total outstanding contributions for all retirement plans, including the 147(C) UAAL Stabilization dollars.

HALE AREA SCHOOLS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2017

NOTE 11 - DEFERRED COMPENSATION PLANS

The School District offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code (IRC), Section 457. The assets of the plans are held in trust, in a custodial account as described in IRC Section 457 (g) for the exclusive benefit of the participants and their beneficiaries. The custodian thereof, for the exclusive benefit of the participants, holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the School District for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the School District's financial statements.

The School District offers its employees participation in the Tax-Deferred Payments (TDP) program through MPSERS. The program, available to all full-time employees who are members of the retirement system, permits them to defer a portion of their salary until future years for the purchase of additional years of service credit. Employees are eligible to voluntarily participate from the date of employment, however once an employee begins payments in the program, they must continue until completion of the purchase of the service credit or termination of employment from Hale Area Schools. Payments into the program are vested once 10 years of service credit have been earned through the MPSERS. Employee contributions to the TDP program totaled \$26 for the year ended June 30, 2017.

The School District also offers its employees a deferred compensation plan created in accordance with Internal Revenue Service Code Section 403(b). The plan, available to all full-time employees, permits them to defer a portion of their salary until future years. Employees are eligible to voluntarily participate from the date of employment and are vested immediately upon participation. Employee contributions to the Section 403(b) plan totaled \$11,795 for the year ended June 30, 2017. The assets of the plan are administered and held by 403(b) ASP, a third party administrator.

NOTE 12 - DEFINED CONTRIBUTION PLAN

Plan Description

The School District's defined contribution pension plan (DC) provides retirement benefits to plan members and beneficiaries. The plan covers employees hired on or after July 1, 2010. The plan is affiliated with the Michigan Public School Employee's Retirement System (MPSERS) Pension Plus Plan of Michigan. Also effective February 2013, former Basic/MIP members could elect to participate in the defined benefit contribution pension plan. Public Act 300 of 1980 of the State of Michigan, as amended, assigns the authority to establish and amend benefit provisions to the MPSERS Board. The plan services are provided by The Office of Retirement Services, exclusively through ING as the plan administrator. MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. The report may be obtained by writing to MPSERS, 7150 Harris Drive, P.O. Box 30673, Lansing, Michigan 48909-8103.

Funding Policy

Prior to February 2013, the School District employees who were part of the PPP were required to contribute 2% of their earnings for the plan year, unless they elected out of the plan, subject to the limitations of sections 457 of the Internal Revenue Code. Employees could elect to contribute more than 2% in full percent increments. For employees that elected to participate, the employer would match 50% of the contribution up to 1%. Employer contributions were considered a section 401(a) contribution.

Beginning February 2013 and after, the rates vary depending on which plan the active member is a participant of. The School District employees that are part of the PPP with Premium Subsidy or a Personal Healthcare Fund (PHF) are not required to contribute. If they do contribute they can contribute in full percent increments and the employer will match 50% of the contribution up to 1%. For the PPP with PHF the employee and employer contribution is 2% for the PHF.

HALE AREA SCHOOLS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2017

NOTE 12 - DEFINED CONTRIBUTION PLAN (CONTINUED)

Funding Policy (Continued)

The following are the DC pension and PHF contribution requirements for each applicable plan option:

- For any new employees hired after September 3, 2012 that elect DC with PHF, the employer pension contribution is 3% and the employee contribution is 6%. For the PHF, both the employee and employer contribution is 2%.
- For Basic, Basic 4%, MIP-Fixed, MIP-Graded and MIP 7% plan members that elect the PHF, the employee and employer contributions are 2% for the PHF only.
- For former Basic/MIP members that elected DC with Premium Subsidy the employer contribution is 4% for the pension only. Employees are not required to contribute, but may, in 1% increments.
- For former Basic/MIP members that elected DC with a PHF, the employer contribution is 4% for the pension. Employees are not required to contribute for pension, but may, in 1% increments. Employee and employer contributions are 2% for the PHF.

Vesting

Employees become 100% vested after four years of service.

Plan Contributions

During the year ended June 30, 2017, the School District contributed \$6,638 on behalf of eligible employees. Employee contributions amounted to \$14,838 for eligible employees.

NOTE 13 - UNEMPLOYMENT COMPENSATION

The School District is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the School District must reimburse the Employment Agency for all benefits charged against the School District. Accrued unemployment compensation was \$112 as of June 30, 2017.

NOTE 14 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The School District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property, casualty and workers' disability compensation. The pools are considered public entity risk pools. The School District pays annual premiums to each pool for the respective insurance coverage. In the event a 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. Each of the pools maintain reinsurance claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The School District has not been informed of any special assessments being required.

The School District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

HALE AREA SCHOOLS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2017

NOTE 15 - GOVERNMENTAL REGULATION

Substantially all of the School District's facilities are subject to federal, state and local provisions regulating the discharge of materials into the environment. Compliance with these provisions has not had, nor does the School District expect such compliance to have, any material effect upon the capital expenditures, net revenue in excess of expenditures or financial condition of the School District. Management believes that its current practices and procedures for the control and disposition of such wastes comply with applicable federal and state requirements.

NOTE 16 - RELATED PARTY

Hale Area Schools uses A+ Automotive, Inc. as a vendor for their bus maintenance. A+ Automotive, Inc. is considered to be a related party to Hale Area Schools due to the President of the Board of Education being related to the owner of A+ Automotive, Inc. During the current year, A+ Automotive, Inc. was paid \$12,457.

Hale Area Schools uses JRC Ventures as a vendor for contracted support staff. JRC Ventures is considered to be a related party to Hale Area Schools due to a member of the Board of Education being related to the owner of JRC Ventures. During the current year, JRC Ventures was paid \$48,259.

NOTE 17 - COMMITMENTS

In June 2017, the School District approved a bid of \$46,927 from Wilson Trucking & Excavating, LLC for sidewalk replacement, for which no work had been started as of June 30, 2017.

NOTE 18 - CONTINGENCIES

The School District participates in a number of federally assisted grant programs which are subject to program compliance audits. The audits of these programs for and including the year ended June 30, 2017, have been conducted and have been reported in this audit report. However, the compliance audit reports have not yet been accepted by the grantors. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time; although the School District expects such amounts, if any, to be immaterial.

REQUIRED SUPPLEMENTARY INFORMATION

HALE AREA SCHOOLS
Losco County, Michigan

SCHEDULE OF THE SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN
(Amounts were determined as of 9/30 of the fiscal year)

	<u>2017</u>		<u>2016</u>		<u>2015</u>
School District's proportion of net pension liability (%)	0.01815%		0.01833%		0.01899%
School District's proportionate share of net pension liability	\$ 4,529,287	\$	4,477,528	\$	4,182,205
School District's covered-employee payroll	\$ 1,541,814	\$	1,536,826	\$	1,642,582
School District's proportionate share of net pension liability as a percentage of its covered-employee payroll	293.76%		291.35%		254.61%
Plan fiduciary net position as a percentage of total pension liability	63.27%		63.17%		66.20%

Notes to the Schedule of the School District's Proportionate Share of the Net Pension Liability:

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

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

HALE AREA SCHOOLS
Losco County, Michigan

SCHEDULE OF THE SCHOOL DISTRICT'S CONTRIBUTIONS
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN
(Amounts determined as of 6/30 of each year)

	2017	2016	2015
Statutorily required contributions	\$ 422,260	\$ 409,841	\$ 349,601
Contributions in relation to statutorily required contributions*	<u>422,260</u>	<u>409,841</u>	<u>349,601</u>
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
 School District's covered-employee payroll	 \$ 1,514,603	 \$ 1,551,778	 \$ 1,555,070
 Contributions as a percentage of covered-employee payroll	 27.88%	 26.41%	 22.48%

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

Notes to the Schedule of the School District's Contributions:

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

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

HALE AREA SCHOOLS
Losco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES -
 BUDGET AND ACTUAL
 GENERAL FUND
For the Year Ended June 30, 2017

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
<u>Revenues</u>				
Local Sources	\$ 3,187,621	\$ 3,211,536	\$ 3,240,173	\$ 28,637
State Sources	478,418	448,890	444,377	(4,513)
Federal Sources	378,417	301,105	293,188	(7,917)
Total Revenues	<u>4,044,456</u>	<u>3,961,531</u>	<u>3,977,738</u>	<u>16,207</u>
<u>Expenditures</u>				
Current:				
Instruction	2,022,178	1,920,935	1,929,961	(9,026)
Support Services	1,656,095	1,567,616	1,524,315	43,301
Community Services	7,700	6,975	7,621	(646)
Athletics	136,542	139,022	139,452	(430)
Payments to Other Public School Districts	185,800	163,140	169,663	(6,523)
Capital Outlay	83,000	172,544	168,444	4,100
Debt Service:				
Principal Retirement	25,000	25,000	25,000	0
Interest and Fees on Long-Term Debt	6,790	6,790	6,790	0
Total Expenditures	<u>4,123,105</u>	<u>4,002,022</u>	<u>3,971,246</u>	<u>30,776</u>
Excess of Revenue Over (Under) Expenditures	<u>(78,649)</u>	<u>(40,491)</u>	<u>6,492</u>	<u>46,983</u>
<u>Other Financing Sources (Uses)</u>				
Sale of Capital Assets	0	5,973	5,973	0
Operating Transfers In	15,000	13,000	13,910	910
Total Other Financing Sources (Uses)	<u>15,000</u>	<u>18,973</u>	<u>19,883</u>	<u>910</u>
Net Change in Fund Balances	(63,649)	(21,518)	26,375	47,893
Fund Balances - Beginning of Year	<u>910,288</u>	<u>910,288</u>	<u>910,288</u>	<u>0</u>
Fund Balances - End of Year	<u>\$ 846,639</u>	<u>\$ 888,770</u>	<u>\$ 936,663</u>	<u>\$ 47,893</u>

INDIVIDUAL FUND SCHEDULES

HALE AREA SCHOOLS
losco County, Michigan

GENERAL FUND
 DETAILS OF REVENUE COMPARED TO BUDGET
 For the Year Ended June 30, 2017
With Comparative Totals for the Year Ended June 30, 2016

	2017 Amended Budget	2017 Actual	2016 Actual
	<u> </u>	<u> </u>	<u> </u>
<u>Local Sources</u>			
Current Property Taxes	\$ 3,137,161	\$ 3,137,174	\$ 3,123,111
Transportation Fees	12,017	12,018	9,350
Gate Receipts	14,800	14,800	10,577
Interest on Investments	7,246	7,281	2,728
Rents	20,000	22,063	19,838
Medicaid Fee for Service	0	9,727	8,052
Miscellaneous Local Sources	<u>20,312</u>	<u>37,110</u>	<u>15,132</u>
	<u>3,211,536</u>	<u>3,240,173</u>	<u>3,188,788</u>
 <u>State Sources</u>			
State Aid Foundation Allowance	11,366	11,364	83,742
Isolated Districts	18,523	18,523	19,350
At Risk	117,603	125,528	133,525
Early Literacy	4,125	4,125	4,125
First Robotics	7,800	7,800	8,300
Special Education Grant	67,398	59,530	87,623
Technology Infrastructure Grant	7,388	7,388	7,704
MPERS Cost Offset	21,770	21,770	21,868
MPERS UAAL Rate Stabilization	<u>192,917</u>	<u>188,349</u>	<u>172,096</u>
	<u>448,890</u>	<u>444,377</u>	<u>538,333</u>
 <u>Federal Sources</u>			
ECIA Title I	259,469	251,440	237,967
ECIA Title II- Improving Teacher Quality	17,755	17,755	52,329
Rural Education	1,197	1,197	0
Medicaid Outreach	0	112	158
Schools and Roads Grant Funds	<u>22,684</u>	<u>22,684</u>	<u>23,277</u>
	<u>301,105</u>	<u>293,188</u>	<u>313,731</u>
 <u>Other Financing Sources</u>			
Sale of Capital Assets	5,973	5,973	519
Operating Transfers In	<u>13,000</u>	<u>13,910</u>	<u>15,609</u>
	<u>18,973</u>	<u>19,883</u>	<u>16,128</u>
 Total Revenue and Other Financing Sources	 <u>\$ 3,980,504</u>	 <u>\$ 3,997,621</u>	 <u>\$ 4,056,980</u>

HALE AREA SCHOOLS
Losco County, Michigan

GENERAL FUND
 DETAILS OF EXPENDITURES COMPARED TO BUDGET
 For the Year Ended June 30, 2017
With Comparative Totals for the Year Ended June 30, 2016

	<u>2017</u> Amended Budget	<u>2017</u> Actual	<u>2016</u> Actual
<u>Instruction</u>			
Basic Programs:			
Elementary			
Salaries	\$ 413,809	\$ 410,348	\$ 419,447
Employee Benefits	285,921	290,561	269,229
Purchased Services	28,953	28,953	29,303
Supplies, Materials and Other	6,500	8,284	3,531
Other Expenses	<u>263</u>	<u>263</u>	<u>273</u>
	<u>735,446</u>	<u>738,409</u>	<u>721,783</u>
Junior High School			
Salaries	154,373	154,179	201,544
Employee Benefits	108,796	111,410	127,494
Purchased Services	20,085	20,085	5,896
Supplies, Materials and Other	451	1,268	1,261
Other Expenses	<u>176</u>	<u>176</u>	<u>90</u>
	<u>283,881</u>	<u>287,118</u>	<u>336,285</u>
High School			
Salaries	199,308	198,830	279,501
Employee Benefits	131,331	136,676	171,264
Purchased Services	89,489	89,489	50,915
Supplies, Materials and Other	21,563	23,194	4,731
Repairs and Maintenance	696	696	1,179
Other Expenses	<u>88</u>	<u>88</u>	<u>1,102</u>
	<u>442,475</u>	<u>448,973</u>	<u>508,692</u>
Total Basic Programs	<u>1,461,802</u>	<u>1,474,500</u>	<u>1,566,760</u>
Added Needs:			
Special Education			
Salaries	123,034	123,034	118,502
Employee Benefits	70,773	72,651	83,446
Purchased Services	6,786	6,786	5,911
Supplies, Materials and Other	<u>131</u>	<u>131</u>	<u>0</u>
	<u>200,724</u>	<u>202,602</u>	<u>207,859</u>
Compensatory Education			
Salaries	137,283	133,600	128,198
Employee Benefits	<u>65,282</u>	<u>63,698</u>	<u>60,011</u>
	<u>202,565</u>	<u>197,298</u>	<u>188,209</u>

HALE AREA SCHOOLS
Iosco County, Michigan

GENERAL FUND
DETAILS OF EXPENDITURES COMPARED TO BUDGET
For the Year Ended June 30, 2017
With Comparative Totals for the Year Ended June 30, 2016

	<u>2017 Amended Budget</u>	<u>2017 Actual</u>	<u>2016 Actual</u>
<u>Instruction (Continued)</u>			
Added Needs: (Continued)			
At Risk			
Salaries	\$ 33,323	\$ 32,834	\$ 3,152
Employee Benefits	19,149	19,355	1,461
Purchased Services	<u>3,372</u>	<u>3,372</u>	<u>7,306</u>
	<u>55,844</u>	<u>55,561</u>	<u>11,919</u>
 Total Added Needs	 <u>459,133</u>	 <u>455,461</u>	 <u>407,987</u>
 Total Instruction	 <u>1,920,935</u>	 <u>1,929,961</u>	 <u>1,974,747</u>
<u>Support Services</u>			
Pupil Services:			
Guidance Services			
Salaries	0	0	45,100
Employee Benefits	0	0	38,306
Purchased Services	<u>8,634</u>	<u>8,634</u>	<u>0</u>
	<u>8,634</u>	<u>8,634</u>	<u>83,406</u>
 Psychological Services			
Purchased Services	<u>11,185</u>	<u>11,185</u>	<u>18,990</u>
 Social Work			
Salaries	31,560	32,040	0
Employee Benefits	9,030	2,552	41
Purchased Services	<u>0</u>	<u>0</u>	<u>75</u>
	<u>40,590</u>	<u>34,592</u>	<u>116</u>
 Pupil Support Services			
Purchased Services	853	853	1,704
Supplies, Materials and Other	<u>0</u>	<u>0</u>	<u>120</u>
	<u>853</u>	<u>853</u>	<u>1,824</u>
 Total Pupil Services	 <u>61,262</u>	 <u>55,264</u>	 <u>104,336</u>
 Instructional Staff:			
Instructional Improvement			
Salaries	0	0	11,700
Employee Benefits	0	0	5,126
Purchased Services	<u>24,316</u>	<u>24,692</u>	<u>25,168</u>
	<u>24,316</u>	<u>24,692</u>	<u>41,994</u>
 Computer Assisted Instruction			
Purchased Services	29,075	29,075	17,419
Supplies, Materials and Other	<u>65,803</u>	<u>65,043</u>	<u>38,978</u>
	<u>94,878</u>	<u>94,118</u>	<u>56,397</u>

HALE AREA SCHOOLS
Iosco County, Michigan

GENERAL FUND
DETAILS OF EXPENDITURES COMPARED TO BUDGET
For the Year Ended June 30, 2017
With Comparative Totals for the Year Ended June 30, 2016

	<u>2017 Amended Budget</u>	<u>2017 Actual</u>	<u>2016 Actual</u>
<u>Support Services (Continued)</u>			
Instructional Staff: (Continued)			
Total Instructional Staff	\$ <u>119,194</u>	\$ <u>118,810</u>	\$ <u>98,391</u>
General Administration:			
Board of Education			
Salaries	3,840	3,690	3,480
Employee Benefits	294	283	267
Purchased Services	17,257	18,481	2,668
Supplies, Materials and Other	<u>7,078</u>	<u>7,078</u>	<u>6,858</u>
	<u>28,469</u>	<u>29,532</u>	<u>13,273</u>
Executive Administration			
Salaries	120,191	120,088	90,000
Employee Benefits	66,941	68,357	53,219
Purchased Services	1,651	1,651	1,228
Supplies, Materials and Other	1,649	1,649	3,372
Other Expenses	<u>935</u>	<u>935</u>	<u>910</u>
	<u>191,367</u>	<u>192,680</u>	<u>148,729</u>
Total General Administration	<u>219,836</u>	<u>222,212</u>	<u>162,002</u>
School Administration:			
Office of the Principal			
Salaries	117,441	117,324	133,497
Employee Benefits	72,739	73,823	83,466
Purchased Services	18,864	18,939	20,896
Supplies, Materials and Other	5,898	6,131	612
Other Expenses	<u>650</u>	<u>650</u>	<u>0</u>
	<u>215,592</u>	<u>216,867</u>	<u>238,471</u>
Business:			
Business Services			
Purchased Services	82,523	83,426	73,348
Supplies, Materials and Other	10,013	10,011	8,146
Repairs and Maintenance	13,768	13,768	10,948
Other Expenses	<u>1,789</u>	<u>1,789</u>	<u>2,290</u>
	<u>108,093</u>	<u>108,994</u>	<u>94,732</u>
Fiscal Services			
Salaries	92,207	92,106	82,190
Employee Benefits	69,879	73,823	61,322
Purchased Services	8,265	8,265	4,493
Supplies, Materials and Other	657	657	238
Other Expenses	<u>338</u>	<u>338</u>	<u>330</u>
	<u>171,346</u>	<u>175,189</u>	<u>148,573</u>
Total Business	<u>279,439</u>	<u>284,183</u>	<u>243,305</u>

HALE AREA SCHOOLS
losco County, Michigan

GENERAL FUND
 DETAILS OF EXPENDITURES COMPARED TO BUDGET
 For the Year Ended June 30, 2017
With Comparative Totals for the Year Ended June 30, 2016

	<u>2017</u> <u>Amended</u> <u>Budget</u>	<u>2017</u> <u>Actual</u>	<u>2016</u> <u>Actual</u>
<u>Support Services (Continued)</u>			
Operations and Maintenance:			
Salaries	\$ 10,000	\$ 10,000	\$ 10,000
Employee Benefits	4,644	4,767	4,528
Purchased Services	136,470	104,680	97,572
Supplies, Materials and Other	12,019	5,287	9,673
Maintenance and Repairs	169,546	169,398	175,468
Maintenance and Repairs - Building	953	953	3,039
Maintenance and Repairs - Equipment	34,926	29,036	31,785
Other Expenses	<u>1,823</u>	<u>1,823</u>	<u>1,166</u>
	<u>370,381</u>	<u>325,944</u>	<u>333,231</u>
Transportation:			
Salaries	31,000	31,000	47,286
Employee Benefits	24,098	24,244	30,510
Purchased Services	118,181	118,181	86,747
Supplies, Materials and Other	32,906	32,413	43,539
Repairs and Maintenance	14,371	13,371	13,452
Other Expenses	<u>3,813</u>	<u>4,018</u>	<u>1,691</u>
	<u>224,369</u>	<u>223,227</u>	<u>223,225</u>
Central Services:			
Support Services - Other			
Salaries	0	0	164
Employee Benefits	0	0	77
Purchased Services	6,331	6,331	6,665
Supplies, Materials and Other	2,135	2,135	6,368
Other Expenses	<u>12,084</u>	<u>12,084</u>	<u>3,680</u>
	<u>20,550</u>	<u>20,550</u>	<u>16,954</u>
Technology:			
Purchased Services	51,018	51,018	50,210
Supplies, Materials and Other	<u>5,975</u>	<u>6,240</u>	<u>970</u>
	<u>56,993</u>	<u>57,258</u>	<u>51,180</u>
Total Central Services	<u>77,543</u>	<u>77,808</u>	<u>68,134</u>
Total Support Services	<u>1,567,616</u>	<u>1,524,315</u>	<u>1,471,095</u>
<u>Community Services</u>			
Community Activities:			
Purchased Services	146	146	0
Supplies, Materials and Other	<u>394</u>	<u>394</u>	<u>601</u>
	<u>540</u>	<u>540</u>	<u>601</u>

HALE AREA SCHOOLS
Iosco County, Michigan

GENERAL FUND
 DETAILS OF EXPENDITURES COMPARED TO BUDGET
 For the Year Ended June 30, 2017
With Comparative Totals for the Year Ended June 30, 2016

	<u>2017 Amended Budget</u>	<u>2017 Actual</u>	<u>2016 Actual</u>
<u>Community Services</u> (Continued)			
Other Community Services:			
Purchased Services	\$ <u>6,435</u>	\$ <u>7,081</u>	\$ <u>6,535</u>
Total Community Services	<u>6,975</u>	<u>7,621</u>	<u>7,136</u>
<u>Athletics</u>			
Salaries	1,749	1,749	3,790
Employee Benefits	568	788	1,711
Equipment and Supplies	14,225	14,225	9,443
Purchased Services	114,147	114,202	97,787
Repairs and Maintenance	1,649	1,649	1,136
Other Expenditures	<u>6,684</u>	<u>6,839</u>	<u>8,640</u>
Total Athletics	<u>139,022</u>	<u>139,452</u>	<u>122,507</u>
<u>Payments to Other Public School Districts</u>			
Whittemore-Prescott Schools	17,000	16,000	16,500
Iosco Regional Educational Service Agency	<u>146,140</u>	<u>153,663</u>	<u>151,119</u>
Total Payments to Other Public School Districts	<u>163,140</u>	<u>169,663</u>	<u>167,619</u>
<u>Capital Outlay</u>			
Support Services	<u>172,544</u>	<u>168,444</u>	<u>258,401</u>
<u>Debt Service</u>			
Principal Retirement	25,000	25,000	25,000
Interest and Fees on Long-Term Debt	<u>6,790</u>	<u>6,790</u>	<u>8,003</u>
Total Debt Service	<u>31,790</u>	<u>31,790</u>	<u>33,003</u>
Total Expenditures	<u>\$ 4,002,022</u>	<u>\$ 3,971,246</u>	<u>\$ 4,034,508</u>



Stephenson & Company, P.C.

Certified Public Accountants & Consultants

Alan J. Stephenson, CPA
Donald W. Brannan, CPA
Kyle E. Troyer, CPA
Robert J. Morand, CPA

August 18, 2017

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

Members of the Board of Education
Hale Area Schools
Iosco County, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 Hale Area Schools as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Hale Area Schools' basic financial statements, and have issued our report thereon dated August 18, 2017.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency.

Financial Statement Preparation Controls

In conjunction with our audit, we have been contracted to prepare the financial statements and related disclosures based on the information provided to us by Management. We would like to stress that this service is allowable under AICPA ethics guidelines and may be the most efficient and effective method for preparation of the District's financial statements. However, if at any point in the audit we as auditors are part of the District's control system for producing reliable financial statements, auditing standards indicate that the District has a control deficiency. If Management is not able to prepare financial statements, including disclosures, and the auditors are contracted to prepare these statements, this is considered a control deficiency. We recommend that Management and those charged with governance evaluate and document their decision on the costs and benefits of whether to contract for this service with our firm.

Members of the Board of Education
Hale Area Schools
August 18, 2017
Page Two

View of Responsible Officials

The District understands the risk of having the auditors prepare the financial statements and has determined to accept this risk as they feel the benefits outweigh the risk. However, the District mitigates the risk by striving to not have any adjusting journal entries proposed by the auditor at year end and by using the 2005 Governmental Accounting, Auditing and Financial Reporting - Using the GASB 34 Model (commonly known as the "Blue Book"), to assist with the disclosures required for the financial statements. In addition, the 2017 PPC Governmental Disclosure Checklist is received and reviewed by the District's Business Manager as part of reviewing and approving their financial statements to assist in ensuring that all required disclosures are properly included in the financial statements.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hale Area 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*.

Hale Area Schools' Response to Findings

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

Purpose of this Report

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

Stephenson & Company, P.C.

Hale Area Schools

200 W. Main Street
Hale, Michigan 48739
Telephone (989) 728-7661
Fax (989) 728-2406

Summary Schedule of Prior Year Audit Findings:

Financial Statement Preparation

Finding: District personnel prepare financial information to assess the operations and financial condition of the District. However, the District relies on their Independent Audit Firm to assist in reporting the annual financial report in accordance with GAAP.

Year of Initial Occurrence: June 30, 2011

Status: This situation still exists, however, has been decreased to a significant deficiency. The District understands the risk of having the auditors prepare the financial statements and has determined to accept this risk as they feel the benefit outweighs the risk itself. However, the District mitigates this risk by striving to not have any adjusting journal entries proposed by the auditor at year end. In addition, the District will utilize the 2005 Governmental Accounting, Auditing and Financial Reporting – Using the GASB 34 Model (commonly known as the “Blue Book”), to assist with the disclosures required for the financial statements. The Business Office staff will attend trainings to further reduce the reliance on auditors to prepare financial statements.

Lack of Sufficient Support for Activity Fund Transactions

Finding: Completeness of the deposits in the Activity and Athletic Funds could not be ensured. It was recommended that two individuals be present to verify that the money being taken in is complete, by signing the activity cash count sheets.

Year of Initial Occurrence: June 30, 2015

Status: This situation still exists. However, it has been determined that these discrepancies are no longer a significant deficiency as it is not likely that they could materially affect the financial statements. Business Office personnel continue to communicate to staff members the procedures that need to be followed when conducting fundraisers and other activities involving cash collections, and have been given time to address all staff members during the opening day activities.

Mission Statement: Hale Area Schools will equip students with the innovative and technological skills to transfer knowledge from the classroom to the global workplace.

Hale Area Schools

200 W. Main Street
Hale, Michigan 48739
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Corrective Action Plan 2016-2017 Fiscal Year

Financial Statement Preparation Controls

Condition: District personnel prepare financial information to assess the operations and financial condition of the District. However, the district relies on their Independent Audit Firm to assist in preparing the annual financial report in accordance with GAAP.

Corrective Action: The District understands the risk of having the auditors prepare the financial statements and has determined to accept this risk as we feel the benefit outweighs the risk itself. The District mitigates this risk by striving to not have any adjusting journal entries proposed by the auditor at year end and by using the GASB 34 Model to assist with the required disclosures for the district's financial statements. The Business Manager receives and reviews the PPC Governmental Disclosure Checklist as part of the reviewing and approval process for their financial statements. The Business Manager along with other Business Office personnel will attend workshops and trainings to be better prepared to minimize the risks caused by this finding and to reduce the reliance on auditors to prepare financial statements. We would like to note that this finding has been reduced from a material weakness to a significant deficiency in the current year due to the reduced number of journal entries required during the course of the audit process.

Contact Person Responsible for Corrective Action: Business Manager Michael Boensch

Anticipated Completion Date: Ongoing, with annual review by Business Manager and Auditor.

Mission Statement: Hale Area Schools will equip students with the innovative and technological skills to transfer knowledge from the classroom to the global workplace.



Stephenson & Company, P.C.

Certified Public Accountants & Consultants

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Donald W. Brannan, CPA
Kyle E. Troyer, CPA
Robert J. Morand, CPA

August 18, 2017

Management and the Board
Hale Area Schools
200 West Main Street
Hale, MI 48739

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hale Area Schools for the year ended June 30, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 29, 2017. Professional standards also require that we communicate to you the following information related to our audit. The appendices to this letter set forth those communications as follows:

I Communication with Those Charged with Governance

II Management Comments

We discussed these matters with various personnel of the District during the audit and met with management on August 11, 2017. We would also be pleased to meet with you to discuss these matters at your convenience.

These communications are intended solely for the information and use of management, the District, others within the District and the Michigan Department of Education and are not intended to be, and should not be, used by anyone other than those specified parties.

Very truly yours,

Stephenson & Company, P.C.

APPENDIX I COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

Our Responsibilities under U.S. Generally Accepted Auditing Standards and *Government Auditing Standards*

As stated in our engagement letter dated June 29, 2017, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we will consider the internal control of Hale Area Schools. Such considerations are solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will also perform tests of Hale Area Schools' compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with those provisions is not an objective of our audit.

Planned Scope and Timing of the Audit

We performed the audit as outlined in our engagement letter related to planning matters dated June 29, 2017.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

- Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Hale Area Schools are described in Note 1 to the financial statements. As described in Note 1 to the financial statements, Hale Area Schools changed accounting policies related to tax abatements by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 77, "Tax Abatement Disclosures", in 2017. In the current year, no related disclosures were required for Hale Area Schools. The application of existing policies was not changed during 2017. We noted no transactions entered into by the government unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.
- Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting Hale Area Schools' financial statements was:

Management's estimate of the net pension liability is based on actuarial valuation audited by the Auditor General. We evaluated the key factors and assumptions used to develop the net pension liability in determining that it is reasonable in relation to the financial statements taken as a whole.

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

Difficulties Encountered in Performing the Audit

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

APPENDIX I COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements, including those considered to be material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated August 18, 2017.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

We applied certain limited procedures to Management's Discussion and Analysis, the Budgetary Comparison Information, and the Required Pension Schedules which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

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

APPENDIX II MANAGEMENT COMMENTS

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hale Area Schools as of and for the year ended June 30, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered Hale Area Schools' internal control over financial reporting (internal control) as a basis for designing 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 Hale Area Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of Hale Area Schools' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

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. We consider the following deficiency in internal control to be a significant deficiency:

FINANCIAL STATEMENT PREPARATION CONTROLS

In conjunction with our audit, we have been contracted to prepare the financial statements and related disclosures based on the information provided to us by Management. We would like to stress that this service is allowable under AICPA ethics guidelines and may be the most efficient and effective method for preparation of Hale Area Schools' financial statements. However, if at any point in the audit we as auditors are part of Hale Area Schools' control system for producing reliable financial statements, auditing standards indicate that Hale Area Schools has a control deficiency. If Management is not able to prepare financial statements, including disclosures, and the auditors are contracted to prepare these statements, this is considered a control deficiency. We recommend that Management and those charged with governance evaluate and document their decision on the costs and benefits of whether to contract for this service with our firm.

During our audit, we also became aware of the following deficiency in internal control other than significant deficiencies or material weaknesses, and other matters that is an opportunity for strengthening internal controls and operating efficiency.

ACTIVITY FUNDS

During the audit we found that the completeness of activity fund deposits could not always be assured. Although management currently has excellent control procedures in place to ensure that each student activity event is supported by a completed recap/reconciliation, with proper third party supporting documentation being required where appropriate, the various individuals in charge of the different events are not consistently implementing the District's procedures. Without these procedures being followed consistently, completeness of the activity fund deposits cannot be assured. We recommend that management remind the employees in charge of the various events of the District's policies and procedures and require that they begin following those procedures as designed.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various governmental unit personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

**APPENDIX II
MANAGEMENT COMMENTS**

STATUS OF PRIOR YEAR COMMENTS:

We have reviewed the status of comments and recommendations made in the prior year. The status of prior year comments is as follows:

<u>Comment</u>	<u>Implemented/ Situation Corrected</u>	<u>Management Decision To Not Implement</u>	<u>Progress Made</u>	<u>Situation Still Exists</u>
Financial Statement Preparation Controls			X	
Activity Funds				X
Procurement Threshold	X			