

**HOUGHTON LAKE COMMUNITY SCHOOLS**

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

**YEAR ENDED JUNE 30, 2017**

## CONTENTS

	<u>Page</u>
<b>Independent auditor's report</b> .....	4 - 6
<b>Management's Discussion and Analysis</b> .....	7 - 13
<b>Basic financial statements</b> .....	14
Government-wide financial statements	
Statement of net position.....	15
Statement of activities.....	16
Fund financial statements	
Balance sheet - governmental funds .....	17 - 18
Statement of revenues, expenditures and changes in fund balances - governmental funds.....	19 - 20
Reconciliation of the statement of revenues, expenditures and changes in fund balances of governmental funds to the statement of activities.....	21
Agency funds	
Statement of fiduciary assets and liabilities .....	22
Notes to financial statements .....	23 - 50
<b>Required supplementary information</b> .....	51
Budgetary comparison schedule - general fund.....	52
Schedule of the reporting unit's proportionate share of the net pension liability.....	53
Schedule of the reporting unit's contributions .....	54
Notes to required supplementary information .....	55

## CONTENTS

	<u>Page</u>
<b>Additional supplementary information .....</b>	<b>56</b>
Nonmajor governmental fund types	
Combining balance sheet .....	57
Combining statement of revenues, expenditures, and changes in fund balances .....	58
Long-term debt	
Bonded debt - Qualified Zone Academy Bond.....	59
Bonded debt .....	60 - 61
Schedule of expenditures of federal awards .....	62 - 63
Notes to schedule of expenditures of federal awards .....	64
Independent auditor's report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i> .....	65 - 66
Independent auditor's report on compliance for each major program and on internal control over compliance required by the Uniform Guidance.....	67 - 68
Schedule of findings and questioned costs .....	69
Schedule of prior year audit findings.....	70

## INDEPENDENT AUDITOR'S REPORT

To the Board of Education  
Houghton Lake Community Schools

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Houghton Lake Community Schools, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Houghton Lake Community Schools' basic financial statements as listed in the table of contents.

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

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

#### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issue by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### ***Opinions***

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

### ***Other Matters***

#### ***Required Supplementary Information***

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

#### ***Other Information***

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 8, 2017 on our consideration of Houghton Lake Community Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of Houghton Lake Community Schools' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Houghton Lake Community Schools' internal control over financial reporting and compliance.

*Maney Costeiran PC*

September 8, 2017

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Houghton Lake Community Schools (HLCS) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2017. Please read it in conjunction with the District's financial statements, which immediately follow this section.

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

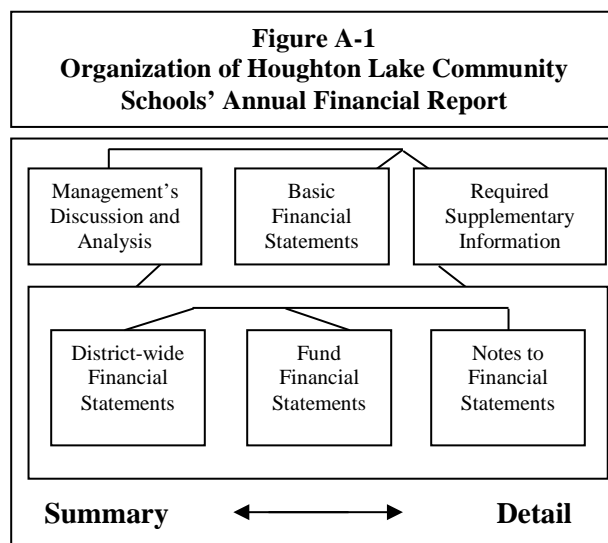
### **FINANCIAL OVERVIEW**

- The District's general fund financial situation decreased from the 2016 fiscal year to 2017.
- For the 2016-17 school year, general fund balance was decreased by \$1,112,552.
- During the 2016-17 school year compared to 2015-16, general fund revenues decreased by \$22,894 (.16%), while expenditures increased by \$1,131,776 (7.9%).
- Student enrollment decreased by 56 students to 1,319 in the 2016 - 2017 school year. This represents a decrease of approximately 4% from the 2016 figure.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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



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

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

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



## **DISTRICT-WIDE STATEMENTS**

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

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

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

District-wide financial statements:

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

## **FUND FINANCIAL STATEMENTS**

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

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

The District has two kinds of funds.

- Governmental funds - Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out, and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information with the governmental funds statements that explain the relationship (or differences) between them.

- Fiduciary funds - The District is the trustee, or fiduciary, for assets that belong to others, such as the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

### FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net position - The District's combined net position was less on June 30, 2017 than the year before, decreasing from (\$12,794,899) to (\$13,653,940).

Table A-3 Houghton Lake Community Schools Net Position		
	2017	2016
Current and other assets	\$ 4,992,493	\$ 6,205,765
Capital assets and other	7,690,640	7,735,459
Total assets	12,683,133	13,941,224
Deferred outflows of resources	3,784,881	2,443,298
Noncurrent liabilities	5,971,199	6,355,201
Other liabilities	1,965,421	2,231,511
Net pension liability	21,407,815	19,979,985
Total liabilities	29,344,435	28,566,697
Deferred inflows of resources	777,519	612,724
Net position:		
Net investment in capital assets	1,710,800	1,368,011
Restricted for debt service	879,131	849,631
Restricted for food service	232,727	194,886
Unrestricted	(16,476,598)	(15,207,427)
Total net position	\$ (13,653,940)	\$ (12,794,899)

	2017	2016
Revenues:		
Program revenues:		
Charges for services	\$ 106,743	\$ 107,286
Federal and state categorical grants	5,078,014	5,228,240
General revenues:		
Property taxes	8,145,128	7,903,457
Investment	20,876	22,236
State aid - unrestricted	2,170,719	1,939,771
Other	453,962	126,219
Total revenues	<u>15,975,442</u>	<u>15,327,209</u>
Expenses:		
Instruction	8,826,434	8,518,112
Support services	6,010,096	5,120,587
Community services	651,359	516,885
Food services	830,244	809,351
Interest on long-term debt	217,027	252,850
Unallocated depreciation	299,323	278,789
Total expenses	<u>16,834,483</u>	<u>15,496,574</u>
Change in net position	<u>\$ (859,041)</u>	<u>\$ (169,365)</u>

### District Governmental Activities

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

- Proposal A which established the student foundation grant concept, and has increased that amount from \$5,024 per student in 1995 to \$7,511 per student in 2017.
- The District continues to work earnestly toward aligning expenditures with declining revenue each year. The District looks to manage staffing levels in accordance with student count, and seeks to save money in non-instructional areas whenever possible.

### FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

For the District as a whole its *combined* fund balance, is \$3,351,251 compared to \$4,432,100 in 2016. The total fund balance decreased by \$1,080,849 for the year primarily due to decrease in the general fund of \$1,112,552.

### General Fund and Budget Highlights

During the 2016-17 fiscal year the original district budget was amended two times to reflect changes which affected the District. The final budget was amended to show a current year balance of \$2,090,666 while the actual fund balance for the year was \$2,094,763. The better-than-anticipated final result was due largely to budgeted funds going unspent at the building and departmental levels.

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

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

The District’s capital assets are as follows:

Table A-5 Houghton Lake Community Schools' Capital Assets				
	2017			2016
	Cost	Accumulated depreciation	Net book value	Net book value
Buildings and improvements	\$ 16,460,366	\$ 10,858,971	\$ 5,601,395	\$ 5,918,583
Machinery and equipment	2,569,961	1,152,318	1,417,643	1,263,438
Transportation equipment	1,482,911	811,309	671,602	553,438
Total	<u>\$ 20,513,238</u>	<u>\$ 12,822,598</u>	<u>\$ 7,690,640</u>	<u>\$ 7,735,459</u>

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

**LONG-TERM DEBT**

At year end the District had \$6,492,199 long-term debt outstanding as shown in Table A-6. More detailed information is available in the notes to the financial statements.

Table A-6 Houghton Lake Community Schools Outstanding Long-Term Debt		
	2017	2016
QZAB bonds	\$ 1,000,000	\$ 1,000,000
2008 General Obligation Bonds	365,000	5,367,448
2017 General Obligation Bonds	4,752,152	-
Compensated absences and terminated benefits	375,047	406,753
	<u>\$ 6,492,199</u>	<u>\$ 6,774,201</u>

## **FACTORS BEARING ON THE DISTRICT'S FUTURE**

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

- The State of Michigan per pupil foundation allowance was increased during the 2017 - 2018 fiscal year to raise the minimum from \$7,511 to \$7,631. This equates to approximately 1.6% increase to general fund revenues from state sources.
- The District's financial results for the 2016 - 2017 year were highly dependent upon federal funding, which was a one-time revenue used basically for wages and benefits for instructional staff.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

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

**BASIC FINANCIAL STATEMENTS**

**HOUGHTON LAKE COMMUNITY SCHOOLS  
STATEMENT OF NET POSITION  
JUNE 30, 2017**

	<b>Governmental activities</b>
<b>ASSETS:</b>	
Cash and cash equivalents	\$ 930,481
Investments	1,413,543
Receivables:	
Accounts receivable	20,873
Due from fiduciary funds	1,866
Intergovernmental	1,358,586
Inventories	160,342
Prepays	106,346
Investments - restricted for debt service set-aside	773,086
Commitment receivable:	
Due within one year	56,843
Due in more than one year	170,527
Capital assets, net of accumulated depreciation	7,690,640
<b>TOTAL ASSETS</b>	<b>12,683,133</b>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>	
Deferred charges on refunding	137,312
Related to pensions	3,647,569
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>3,784,881</b>
<b>LIABILITIES:</b>	
Accounts payable	113,105
Accrued salaries and related items	907,333
Accrued retirement	292,375
Accrued interest	30,549
Unearned revenue	101,059
Noncurrent liabilities:	
Due within one year	521,000
Due in more than one year	5,971,199
Net pension liability	21,407,815
<b>TOTAL LIABILITIES</b>	<b>29,344,435</b>
<b>DEFERRED INFLOWS OF RESOURCES:</b>	
Related to pensions	99,664
Related to state aid funding for pensions	677,855
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>777,519</b>
<b>NET POSITION:</b>	
Net investment in capital assets	1,710,800
Restricted for debt service	879,131
Restricted for food service	232,727
Unrestricted	(16,476,598)
<b>TOTAL NET POSITION</b>	<b>\$ (13,653,940)</b>

See notes to financial statements.

**HOUGHTON LAKE COMMUNITY SCHOOLS  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2017**

<u>Functions/programs</u>	<u>Expenses</u>	<u>Program revenues</u>		<u>Governmental activities</u>
		<u>Charges for services</u>	<u>Operating grants</u>	<u>Net (expense) revenue and changes in net position</u>
Governmental activities:				
Instruction	\$ 8,826,434	\$ -	\$ 3,303,880	\$ (5,522,554)
Support services	6,010,096	26,267	825,971	(5,157,858)
Community services	651,359	-	163,380	(487,979)
Food services	830,244	80,476	784,783	35,015
Interest on long-term debt	217,027	-	-	(217,027)
Unallocated depreciation	299,323	-	-	(299,323)
Total governmental activities	<u>\$ 16,834,483</u>	<u>\$ 106,743</u>	<u>\$ 5,078,014</u>	<u>(11,649,726)</u>
General revenues:				
Property taxes, levied for general purposes				7,469,015
Property taxes, levied for debt service				676,113
Investment earnings				20,876
State sources				2,170,719
Intermediate sources				377,868
Other				76,094
Total general revenues				<u>10,790,685</u>
<b>CHANGE IN NET POSITION</b>				(859,041)
<b>NET POSITION, beginning of year</b>				<u>(12,794,899)</u>
<b>NET POSITION, end of year</b>				<u>\$ (13,653,940)</u>



**HOUGHTON LAKE COMMUNITY SCHOOLS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2017**

<b>ASSETS</b>	<b>General fund</b>	<b>QZAB Debt Service Fund</b>	<b>Total nonmajor funds</b>	<b>Total governmental funds</b>
<b>ASSETS:</b>				
Cash and cash equivalents	\$ 765,016	\$ -	\$ 165,465	\$ 930,481
Investments	1,413,543	-	-	1,413,543
Receivables:				
Accounts receivable	20,873	-	-	20,873
Intergovernmental receivables	1,329,111	-	29,475	1,358,586
Due from fiduciary funds	1,866	-	-	1,866
Due from other funds	50,397	-	288,569	338,966
Commitment receivable	227,370	-	-	227,370
Inventories	154,802	-	5,540	160,342
Prepays	34,346	-	72,000	106,346
Investments - restricted for debt service set-aside	-	773,086	-	773,086
<b>TOTAL ASSETS</b>	<b>\$ 3,997,324</b>	<b>\$ 773,086</b>	<b>\$ 561,049</b>	<b>\$ 5,331,459</b>
<b>DEFERRED INFLOWS OF RESOURCES, LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES:</b>				
Accounts payable	\$ 85,855	\$ -	\$ 27,250	\$ 113,105
Accrued salaries and related items	907,333	-	-	907,333
Accrued retirement	292,375	-	-	292,375
Due to other funds	288,569	-	50,397	338,966
Unearned revenue	101,059	-	-	101,059
<b>TOTAL LIABILITIES</b>	<b>1,675,191</b>	<b>-</b>	<b>77,647</b>	<b>1,752,838</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenue	227,370	-	-	227,370
<b>FUND BALANCES:</b>				
Nonspendable:				
Inventories	154,802	-	5,540	160,342
Prepays	34,346	-	72,000	106,346

See notes to financial statements.

	<u>General fund</u>	<u>QZAB Debt Service Fund</u>	<u>Total nonmajor funds</u>	<u>Total governmental funds</u>
<b>FUND BALANCES (Concluded):</b>				
Restricted for:				
Debt service	\$ -	\$ 773,086	\$ 136,594	\$ 909,680
Food service	-	-	269,268	269,268
Committed:				
Forestry contract classroom projects	21,584	-	-	21,584
Assigned:				
Subsequent year's expenditures	123,695	-	-	123,695
Compensated absences and severance benefits	375,047	-	-	375,047
Unassigned reported in:				
General fund	1,385,289	-	-	1,385,289
<b>TOTAL FUND BALANCES</b>	<u>2,094,763</u>	<u>773,086</u>	<u>483,402</u>	<u>3,351,251</u>
<b>TOTAL DEFERRED INFLOWS OF RESOURCES,     LIABILITIES AND FUND BALANCES</b>	<u>\$ 3,997,324</u>	<u>\$ 773,086</u>	<u>\$ 561,049</u>	<u>\$ 5,331,459</u>
<b>Total governmental fund balances</b>				\$ 3,351,251
Amounts reported for governmental activities in the statement of net position are different because:				
Deferred charges on refunding				137,312
Deferred outflows of resources - related to pensions			\$ 3,647,569	
Deferred inflows of resources - related to pensions			(99,664)	
Deferred inflows of resources - state aid funding for pensions			<u>(677,855)</u>	2,870,050
Capital assets used in governmental activities are not financial resources and are not reported in the funds:				
The cost of the capital assets is			20,513,238	
Accumulated depreciation is			<u>(12,822,598)</u>	7,690,640
Long-term liabilities are not due and payable in the current period and are not reported in the funds:				
Accrued compensated absences and severance benefits				(375,047)
Bonds payable and unamortized premium				(6,117,152)
Accrued interest is not included as a liability in governmental funds, it is recorded when paid				(30,549)
Net pension liability				<u>(21,407,815)</u>
<b>Net position of governmental activities</b>				<u>\$ (13,881,310)</u>

See notes to financial statements.

**HOUGHTON LAKE COMMUNITY SCHOOLS**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2017**

	<u>General fund</u>	<u>QZAB Debt Service Fund</u>	<u>Total nonmajor funds</u>	<u>Total governmental funds</u>
<b>REVENUES:</b>				
Local sources:				
Property taxes	\$ 7,469,015	\$ -	\$ 676,113	\$ 8,145,128
Investment earnings	3,435	16,841	600	20,876
Food sales	-	-	80,476	80,476
Other	255,243	-	-	255,243
Total local sources	<u>7,727,693</u>	<u>16,841</u>	<u>757,189</u>	<u>8,501,723</u>
State sources	4,545,268	-	27,566	4,572,834
Federal sources	1,897,111	-	757,217	2,654,328
Incoming transfers and other	150,498	-	-	150,498
Total revenues	<u>14,320,570</u>	<u>16,841</u>	<u>1,541,972</u>	<u>15,879,383</u>
<b>EXPENDITURES:</b>				
Current:				
Instruction	8,330,890	-	-	8,330,890
Supporting services	6,399,989	-	-	6,399,989
Food service activities	-	-	828,959	828,959
Community service activities	655,759	-	-	655,759
Capital outlay	-	-	8,200	8,200

See notes to financial statements.

	<u>General fund</u>	<u>QZAB Debt Service Fund</u>	<u>Total nonmajor funds</u>	<u>Total governmental funds</u>
<b>EXPENDITURES (Concluded):</b>				
Debt service:				
Principal repayment	\$ -	\$ -	\$ 345,000	\$ 345,000
Interest	-	10,000	134,435	144,435
Bond issuance costs	-	-	123,355	123,355
Payments to refunded bond escrow	-	-	247,000	247,000
Total expenditures	<u>15,386,638</u>	<u>10,000</u>	<u>1,686,949</u>	<u>17,083,587</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(1,066,068)</u>	<u>6,841</u>	<u>(144,977)</u>	<u>(1,204,204)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Proceeds from issuance of bonds	-	-	4,515,000	4,515,000
Payments to refunded bond escrow	-	-	(4,628,796)	(4,628,796)
Bond premium	-	-	237,151	237,151
Transfers in	18,200	64,684	-	82,884
Transfers out	(64,684)	-	(18,200)	(82,884)
Total other financing sources (uses)	<u>(46,484)</u>	<u>64,684</u>	<u>105,155</u>	<u>123,355</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>(1,112,552)</u>	<u>71,525</u>	<u>(39,822)</u>	<u>(1,080,849)</u>
<b>FUND BALANCES:</b>				
Beginning of year	<u>3,207,315</u>	<u>701,561</u>	<u>523,224</u>	<u>4,432,100</u>
End of year	<u>\$ 2,094,763</u>	<u>\$ 773,086</u>	<u>\$ 483,402</u>	<u>\$ 3,351,251</u>

See notes to financial statements.

**HOUGHTON LAKE COMMUNITY SCHOOLS  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2017**

<b>Net change in fund balances total governmental funds</b>	\$ (1,080,849)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. In the statement of activities these costs are allocated over their estimated useful lives as depreciation:	
Depreciation expense	(716,889)
Capital outlay	672,070
Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:	
Accrued interest payable, beginning of the year	38,846
Accrued interest payable, end of the year	(30,549)
The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The effect of these differences in the treatment of long-term debt and related items are as follows:	
Proceeds from issuance of bonds	(4,515,000)
Payments on debt	345,000
Debt refunded	4,625,000
Premium on issuance of bonds	(237,151)
Deferred charge on refunding	137,312
Amortization of bond premium	32,447
Revenue is recorded on the accrual method in the statement of activities; in the governmental funds it is recorded on the modified accrual method and not considered available:	
Deferred inflows of resources - unavailable revenue, end of the year	227,370
Compensated absences are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds:	
Accrued compensated absences and severance benefits, beginning of the year	406,753
Accrued compensated absences and severance benefits, end of the year	(375,047)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:	
Pension related items	(257,043)
Restricted revenue reported in the governmental funds that is deferred to offset the deferred outflows related to section 147c pension contributions subsequent to the measurement period:	
State aid funding for pension, beginning of year	546,544
State aid funding for pension, end of year	(677,855)
<b>Change in net position of governmental activities</b>	<u><u>\$ (859,041)</u></u>

**HOUGHTON LAKE COMMUNITY SCHOOLS  
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
JUNE 30, 2017**

	<u>Agency fund</u>
<b>ASSETS:</b>	
Cash	\$ 179,404
	<u>                    </u>
<b>LIABILITIES:</b>	
Due to other funds	\$ 1,866
Due to student and other groups	177,538
	<u>                    </u>
<b>TOTAL LIABILITIES</b>	<u>\$ 179,404</u>

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

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

**A. Description of Government-wide Financial Statements**

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

**B. Reporting Entity**

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

**C. Basis of Presentation - Government-wide Financial Statements**

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

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

**D. Basis of Presentation - Fund Financial Statements**

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

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

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

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

The District reports the following major governmental funds:

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

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

**Other Nonmajor Funds**

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

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

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

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

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

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

**E. Measurement Focus and Basis of Accounting**

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



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

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

**E. Measurement Focus and Basis of Accounting (Continued)**

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

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

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

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

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

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

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

**E. Measurement Focus and Basis of Accounting (Concluded)**

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

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

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

**F. Budgetary Information**

Budgetary basis of accounting:

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

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

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

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

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

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

**F. Budgetary Information (Concluded)**

3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the general fund are noted in the required supplementary information section.
4. Transfers may be made for budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. The budget was amended during the year with supplemental appropriations, the last one approved prior to year-end June 30, 2017. The District does not consider these amendments to be significant.

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

1. Cash and cash equivalents

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

2. Investments

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

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

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

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

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

3. Inventories and prepaid items

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

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

4. Capital assets

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

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

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

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

5. Defined benefit plan

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

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

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

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

6. Deferred outflows/inflows of resources

Deferred outflows

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District has two items that qualify for reporting in this category. They are the deferred charge on refunding and the pension related items reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. A deferred outflow is recognized for pension related items. The amounts are expensed in the plan years in which they apply.

Deferred inflows

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has three items that qualifies for reporting in this category. The first is the future resources yet to be recognized in relation to the pension actuarial calculation. These future resources arise from differences in the estimates used by the actuary to calculate the pension liability and the actual results. The amounts are amortized over a period determined by the actuary. The second is restricted section 147c state aid deferred to offset deferred outflows related to section 147c pension contributions subsequent to the measurement period. The third item arises only under the modified accrual basis of accounting. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue from receipts that are received after 60 days of year end at a deferred inflow. These amounts are deferred and recognized as inflow of resources (revenue) in the period that the amounts become available.

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

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

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

7. Net position flow assumption

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

8. Fund balance flow assumptions

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

9. Fund balance policies

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

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

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

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

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

9. Fund balance policies (Concluded)

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

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

**H. Revenues and Expenditures/Expenses**

1. Program revenues

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

2. Property taxes

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

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

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

**H. Revenues and Expenditures/Expenses (Concluded)**

2. Property taxes (Concluded)

For the year ended June 30, 2017, the District levied the following amounts per \$1,000 of assessed valuation:

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

3. Compensated absences

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

4. Long-term obligations

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

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



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

**NOTE 2 - DEPOSITS AND INVESTMENTS - CREDIT RISK**

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

<u>Investment type</u>	<u>Fair value</u>	<u>Weighted average maturity (years)</u>	<u>Standard &amp; Poor's rating</u>	<u>%</u>
U.S. Government securities	\$ 773,086	0.4887	AA+	35.36%
MILAF External Investment pool - MIMAX	1,413,543	0.0027	AAAm	64.64%
Total fair value	<u>\$ 2,186,629</u>			<u>100.00%</u>
Portfolio weighted average maturity		<u>0.1745</u>		
1 day maturity equals 0.0027, one year equals 1.00				

The District voluntarily invests certain excess funds in external pooled investment funds which included money market funds. One of the pooled investment funds utilized by the District is the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external pooled investment fund of “qualified” investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports as of June 30, 2017, the fair value of the District’s investments is the same as the value of the pool shares.

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

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

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

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

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

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

**Custodial credit risk - deposits.** In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2017, \$1,020,780 of the District's bank balance of \$1,272,671 was exposed to custodial credit risk because it was uninsured and uncollateralized. The carrying amount is \$1,109,885. The fiduciary fund balances are included in the above balances.

**Custodial credit risk - investments.** For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All repurchase securities are held by the investment's counterparty (Chemical Bank), not in the name of the District.

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

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

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

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

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

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

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

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

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

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

At June 30, 2017, the carrying amounts are as follows:

Deposits - including fiduciary funds of \$179,404	\$ 1,109,885
Investments	2,186,629
	<u>\$ 3,296,514</u>

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

Cash - agency fund	\$ 179,404
Government wide:	
Cash and cash equivalents	930,481
Investments	1,413,543
Investments - restricted debt service set-aside	773,086
	<u>\$ 3,296,514</u>

**NOTE 3 - INTERGOVERNMENTAL RECEIVABLES**

Intergovernmental receivables at June 30, 2017 consist of the following:

Intergovernmental units:	
State aid	\$ 788,574
Federal revenue	308,866
Other	261,146
	<u>\$ 1,358,586</u>

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

**NOTE 4 - CAPITAL ASSETS**

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

	Balance July 1, 2016	Additions	Reclassifications /deletions	Balance June 30, 2017
Capital assets, being depreciated:				
Site improvements	\$ 1,874,452	\$ 44,556	\$ -	\$ 1,919,008
Buildings and improvements	14,479,065	62,293	-	14,541,358
Machinery and equipment	2,274,717	307,017	11,773	2,569,961
Transportation equipment	1,504,695	258,204	279,988	1,482,911
Total capital assets, being depreciated	<u>20,132,929</u>	<u>672,070</u>	<u>291,761</u>	<u>20,513,238</u>
Accumulated depreciation:				
Site improvements	620,976	89,006	-	709,982
Buildings and additions	9,813,958	335,031	-	10,148,989
Machinery and equipment	1,011,279	152,812	11,773	1,152,318
Transportation equipment	951,257	140,040	279,988	811,309
Total accumulated depreciation	<u>12,397,470</u>	<u>716,889</u>	<u>291,761</u>	<u>12,822,598</u>
Net capital assets being depreciated	<u>7,735,459</u>	<u>(44,819)</u>	<u>-</u>	<u>7,690,640</u>
Net governmental capital assets	<u>\$ 7,735,459</u>	<u>\$ (44,819)</u>	<u>\$ -</u>	<u>\$ 7,690,640</u>

Depreciation for the fiscal year ended June 30, 2017 amounted to \$716,889. The District allocated depreciation expense to the various activities as follows:

Instruction	\$ 359,709
Support services	57,857
Unallocated	<u>299,323</u>
	<u>\$ 716,889</u>

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

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

**NOTE 5 - LONG-TERM DEBT**

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

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

	QZAB bonds	General obligation bonds	Sub-total bonds and notes	Compensated absences	Severance benefits	Total
Balance, July 1, 2016	\$ 1,000,000	\$ 5,367,448	\$ 6,367,448	\$ 355,359	\$ 51,394	\$ 6,774,201
Additions	-	4,752,151	4,752,151	-	-	4,752,151
Deletions	-	5,002,447	5,002,447	27,877	3,829	5,034,153
Balance, June 30, 2017	1,000,000	5,117,152	6,117,152	327,482	47,565	6,492,199
Due within one year	-	480,000	480,000	36,000	5,000	521,000
Due in more than one year	\$ 1,000,000	\$ 4,637,152	\$ 5,637,152	\$ 291,482	\$ 42,565	\$ 5,971,199

Long-term obligation debt at June 30, 2017 is comprised of the following:

2005 School Building Bond is due in one installment on June 21, 2021. The bond was issued under the Qualified Zone Academy Bond (QZAB) program. Interest is reduced to 1.00% through a tax credit. A set-aside amount of \$64,684 is required each year. Interest of 2.75% will be earned on the set-aside account.	\$ 1,000,000
2008 general obligation bonds with a final payment of \$365,000 due May 1, 2018 with interest of 5.00%.	365,000
2017 partial refunding bonds due in annual installments of \$115,000 to \$500,000 through May 1, 2028 with interest from 2.00% to 4.00%.	4,515,000
Plus premium on bonds	<u>237,152</u>
Total bonded debt	6,117,152
Obligation under contract from compensated absences	327,482
Obligation under contract from severance benefits	<u>47,565</u>
Total long-term debt	<u><u>\$ 6,492,199</u></u>

Interest expense (all funds) for the year ended June 30, 2017 was approximately \$217,027.

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

**NOTE 5 - LONG-TERM DEBT (Concluded)**

On February 14, 2017, the District issued general obligation bonds of \$4,515,000 with an interest rate from 2% to 4% and made a payment of \$247,000 to advance refund a portion of the District's outstanding 2008 bonds with interest rate of 4% to 5%. The bonds mature at various times through May 2028. The general obligation bonds were issued at a premium after paying issuance costs of \$123,355, the net proceeds were \$4,628,796. The net proceeds from the issuance of the refunding bonds were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the bonds are paid in full. The advance refunding met the requirements of an in-substance debt defeasance and the term bonds were removed from the District's government-wide financial statements.

As a result of the advance refunding, the District reduced its total debt service requirements by \$388,720, which resulted in an economic gain (difference between the present value of the debt service payment on the old and new debt) of \$312,874.

The District has defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. At June 30, 2017, \$4,625,000 of bonds outstanding are considered defeased.

The annual requirements to amortize long-term debt outstanding as of June 30, 2017, including interest of \$961,896 are as follows:

Year ending June 30,	Principal	Interest	Total
2018	\$ 480,000	\$ 166,496	\$ 646,496
2019	390,000	129,150	519,150
2020	395,000	121,350	516,350
2021	1,405,000	113,450	1,518,450
2022	420,000	101,300	521,300
2023 - 2027	2,290,000	310,150	2,600,150
2028	500,000	20,000	520,000
Total	5,880,000	961,896	6,841,896
Premium on bonds	237,152	-	237,152
Accumulated compensated absences	327,482	-	327,482
Accumulated severance benefits	47,565	-	47,565
	<u>\$ 6,492,199</u>	<u>\$ 961,896</u>	<u>\$ 7,454,095</u>

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

**NOTE 6 - INTERFUND RECEIVABLES AND PAYABLES**

Interfund payable and receivable balances at June 30, 2017 are as follows:

Receivable fund		Payable fund	
General fund	\$ 50,397	General fund	\$ 288,569
Food service fund	157,079	Food service fund	50,397
Debt service fund	131,490		
	<u>\$ 338,966</u>		<u>\$ 338,966</u>

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

**NOTE 7 - DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS**

**Plan Description**

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

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 of the system.

**Benefits Provided**

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

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

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

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

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Retirement benefits for DB plan members are determined by final average compensation and years of service. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members. In addition, the System's health plan provides all retirees with the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act.

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

**Pension Reform 2010**

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

**Pension Reform 2012**

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



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

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

**Regular Retirement (no reduction factor for age)**

Eligibility - Age 55 with 30 years credited service; or age 60 with 10 years credited service. For Member Investment Plan (MIP) members, age 46 with 30 years credited service; or age 60 with 10 years credited service; or age 60 with 5 years of credited service provided member worked through 60<sup>th</sup> birthday and has credited service in each of the last 5 years. For Pension Plus Plan (PPP) members, age 60 with 10 years of credited service.

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

**Pension Plus**

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

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

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

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

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

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

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

**Member Contributions**

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

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

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

**Employer Contributions**

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

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

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

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

The District's pension contributions for the year ended June 30, 2017 were equal to the required contribution total. Pension contributions were approximately \$2,009,000 with \$1,974,000 specifically for the Defined Benefit Plan. These amounts include contributions funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate (72.88% for pension and 27.12% for OPEB).

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

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

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

*Pension Liabilities*

At June 30, 2017, the District reported a liability of \$21,407,815 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2015 and rolled-forward using generally accepted actuarial procedures. The District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2016 and 2015, the District's proportion was 0.08581 and 0.08180 percent.

<u>MPERS (Plan) Non-university employers:</u>	<u>September 30, 2016</u>	<u>September 30, 2015</u>
Total pension liability	\$ 67,917,445,078	\$ 66,312,041,902
Plan fiduciary net position	\$ 42,968,263,308	\$ 41,887,015,147
Net pension liability	\$ 24,949,181,770	\$ 24,425,026,755
Proportionate share	0.08581%	0.08180%
Net pension liability for the District	\$ 21,407,815	\$ 19,979,985

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

For the year ended June 30, 2017, the District recognized pension expense of \$1,552,832. This amount excludes contributions funded from state revenue Section 147c restricted to fund the MPERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate. These amounts have been recorded as a deferred outflow as of June 30, 2017.

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

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

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

	Deferred outflows of resources	Deferred inflows of resources
Changes of assumptions	\$ 334,694	\$ -
Net difference between projected and actual plan investment earnings	355,798	-
Difference between expected and actual experience	266,798	(50,737)
Net difference between employer contributions and proportionate share of contributions	884,712	(48,927)
Reporting Unit's contributions subsequent to the measurement date	1,805,567	-
	\$ 3,647,569	\$ (99,664)

\$1,805,567, reported as deferred outflows of resources related to pensions resulting from District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

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

Year ended September 30,	Amount
2017	\$ 411,824
2018	383,838
2019	743,662
2020	203,014

**Actuarial Assumptions**

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

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

**Inflation** - 2.5%

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

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

**Mortality assumptions** - RP2000 Combined Healthy Life Mortality table, adjusted for mortality improvements to 2025 using projection scale BB for men and women were used.

**Experience study** - The annual actuarial valuation report of the System used for these statements is dated September 30, 2015. Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation.

**The long-term expected rate of return on pension plan investments** - The rate was **8% (7% Pension Plus Plan)** net of investment and administrative expenses was determined using a 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.

The target asset allocation at September 30, 2016 and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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

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

**Discount rate** - The discount rate used to measure the total pension liability was 8% (7% for Pension Plus Plan). The discount rate did not change from the prior measurement date. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from school districts will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

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

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

	1% Decrease (6.0 - 7.0%)	Discount rate (7.0 - 8.0%)	1% Increase (8.0 - 9.0%)
Reporting unit's proportionate share of the net pension liability	\$ 27,567,877	\$ 21,407,815	\$ 16,214,290

**Pension Plan Fiduciary Net Position**

Detailed information about the pension plan's fiduciary net position is available in the separately issued Michigan Public School Employees Retirement System 2016 Comprehensive Annual Financial Report.

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

**Other Information**

***Discount Rate - Assumed Rate of Return***

On February 23, 2017, in accordance with PA 300 of 1980, as amended, the Michigan Public Schools Employees' Retirement System's Board approved a decrease in the assumed investment rate of return (discount rate) used in the System's annual actuarial valuation for the non-hybrid defined benefit pension plan from 8% to 7.5% effective for the fiscal year 2016 valuation and following.

The September 30, 2016 Annual Actuarial Valuation Report will be used to establish the employer contribution for fiscal year beginning October 1, 2018 and will be based upon the 7.5% investment rate of return assumption. The actuarial computed employer contributions and the net pension liability will increase as a result of lowering the assumed investment rate of return.

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

**NOTE 7 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)**

***Pension Reform 2017***

Senate Bill 401 amends the Public School Employees Retirement Act (PA 300 of 1980, as amended).

The bill closes the current hybrid plan (Pension Plus) to newly hired employees as of February 1, 2018 and creates a new optional revised hybrid plan with similar plan benefit calculations but contains a 50/50 cost share between the employee and the employer, including the cost of future unfunded liabilities. The assumed rate of return on the new hybrid plan would equal 6%. Further, the bill provides, under certain conditions, that the new hybrid plan would close to new employees if the actuarial funded ratio falls below 85% for two consecutive years. The bill includes other provisions to the retirement eligibility age, plan assumptions, and unfunded liability payment methods.

**Benefit Provisions - Other Postemployment**

***Introduction***

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

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

***Retiree Healthcare Reform of 2012***

Public Act 300 of 2012 granted all active members of the Michigan Public School Employees Retirement System, who earned service credit in the 12 months ending September 3, 2012, or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their retirement healthcare. Any changes to a member's healthcare benefit are effective as of the member's *transition date*, which is defined as the first day of the pay period that begins on or after February 1, 2013.

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

**NOTE 7 - RETIREMENT AND POST RETIREMENT BENEFITS (Concluded)**

**Benefit Provisions - Other Postemployment (Concluded)**

***Retiree Healthcare Reform of 2012 (Concluded)***

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

***Employer Contributions***

The employer contribution rate ranged from 5.52% to 6.45% of covered payroll for the period October 1, 2013 to March 9, 2015, 2.2% to 2.71% of covered payroll for the period from March 10, 2015 to September 30, 2015, and from 6.4% to 6.83% of covered payroll for the period from October 1, 2015 through September 30, 2016 5.69% to 5.91% of covered payroll for the period from October 1, 2016 through September 30, 2017 dependent upon the employee's date of hire and plan election.

The District postemployment healthcare contributions to MPSERS for the years ended June 30, 2017, 2016 and 2015 were approximately \$680,000, \$728,000, and \$770,000.

**NOTE 8 - RISK MANAGEMENT**

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

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



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

**NOTE 9 - TRANSFERS**

The general fund transferred \$64,684 to the QZAB debt service fund to fund the required set aside funding requirement. The transfer of \$18,200 from the food service fund to the general fund was for indirect costs.

**NOTE 10 - COMMITMENTS**

The District was part of a settlement agreement with C.O.O.R. ISD which will pay the District \$334,578 over a period of five years commencing in fiscal year 2017. The District received \$107,208 as of June 30, 2017 and will receive yearly installments of \$56,843. The balance at June 30, 2017 is \$227,370. The settlement includes a clause that full annual payments may not be made if the fund balance for the ISD would fall below 20%. In this case, the settlement amount owed to the District will be extended beyond the initial five year payback period. As a result, no allowance of uncollectable accounts is considered necessary by the District. The District anticipates receiving the balance owed in the following installments:

June 30,		
2018	\$	56,843
2019		56,843
2020		56,842
2021		56,842
		\$ 227,370

**NOTE 11 - UPCOMING ACCOUNTING PRONOUNCEMENTS**

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

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

**NOTE 11 - UPCOMING ACCOUNTING PRONOUNCEMENTS (Concluded)**

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

**REQUIRED SUPPLEMENTARY INFORMATION**

**HOUGHTON LAKE COMMUNITY SCHOOLS  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
YEAR ENDED JUNE 30, 2017**

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>with final budget</u>
<b>REVENUES:</b>				
Local sources	\$ 7,806,031	\$ 7,805,738	\$ 7,727,693	\$ (78,045)
State sources	4,958,281	4,488,267	4,545,268	57,001
Federal sources	2,006,253	1,878,434	1,897,111	18,677
Incoming transfers and other	56,761	127,000	150,498	23,498
Total revenues	<u>14,827,326</u>	<u>14,299,439</u>	<u>14,320,570</u>	<u>21,131</u>
<b>EXPENDITURES:</b>				
Current:				
Instruction:				
Basic programs	6,264,887	6,314,475	6,319,537	(5,062)
Added needs	2,232,697	1,911,619	1,927,098	(15,479)
Adult education	114,947	84,401	84,255	146
Total instruction	<u>8,612,531</u>	<u>8,310,495</u>	<u>8,330,890</u>	<u>(20,395)</u>
Supporting services:				
Pupil	733,148	683,807	683,315	492
Instructional staff	335,569	538,192	533,125	5,067
General administration	282,318	309,097	309,589	(492)
School administration	1,109,490	1,126,371	1,127,113	(742)
Business	362,147	358,165	356,915	1,250
Operation/maintenance	1,071,352	1,258,523	1,231,807	26,716
Pupil transportation	929,885	1,151,514	1,136,356	15,158
Central	557,371	965,190	1,021,769	(56,579)
Total supporting services	<u>5,381,280</u>	<u>6,390,859</u>	<u>6,399,989</u>	<u>(9,130)</u>
Community services	708,899	656,050	655,759	291
Total expenditures	<u>14,702,710</u>	<u>15,357,404</u>	<u>15,386,638</u>	<u>(29,234)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>				
	<u>124,616</u>	<u>(1,057,965)</u>	<u>(1,066,068)</u>	<u>(8,103)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	-	6,000	18,200	12,200
Transfers out	(64,684)	(64,684)	(64,684)	-
Total other financing uses	<u>(64,684)</u>	<u>(58,684)</u>	<u>(46,484)</u>	<u>12,200</u>
<b>NET CHANGE IN FUND BALANCE</b>				
	<u>\$ 59,932</u>	<u>\$ (1,116,649)</u>	<u>(1,112,552)</u>	<u>\$ 4,097</u>
<b>FUND BALANCE:</b>				
Beginning of year			<u>3,207,315</u>	
End of year			<u>\$ 2,094,763</u>	

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Reporting unit's proportion of net pension liability (%)	0.08581%	0.08180%	0.08096%
Reporting unit's proportionate share of net pension liability	\$ 21,407,815	\$ 19,979,985	\$ 17,832,362
Reporting unit's covered-employee payroll	\$ 7,406,904	\$ 6,822,821	\$ 6,840,439
Reporting unit's proportionate share of net pension liability as a percentage of its covered-employee payroll	289.03%	292.84%	260.69%
Plan fiduciary net position as a percentage of total pension liability (Non university employers)	63.27%	63.17%	66.20%

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

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contributions	\$ 1,973,644	\$ 1,809,685	\$ 1,492,289
Contributions in relation to statutorily required contributions	<u>1,973,644</u>	<u>1,809,685</u>	<u>1,492,289</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Reporting unit's covered-employee payroll	\$ 7,240,173	\$ 7,143,586	\$ 6,688,782
Contributions as a percentage of covered-employee payroll	27.26%	25.33%	22.31%

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

**HOUGHTON LAKE COMMUNITY SCHOOLS  
SCHEDULE OF NET PENSION LIABILITY  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2017**

**Changes of benefits terms:** There were no changes of benefits terms in 2016.

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

**ADDITIONAL SUPPLEMENTARY INFORMATION**



**HOUGHTON LAKE COMMUNITY SCHOOLS  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUND  
JUNE 30, 2017**

	<b>Special revenue</b>	<b>Debt service</b>	<b>Total nonmajor funds</b>
	<b>Food service</b>	<b>2017 Refunding</b>	
<b>ASSETS</b>			
<b>ASSETS:</b>			
Cash and cash equivalents	\$ 160,361	\$ 5,104	\$ 165,465
Intergovernmental receivable	29,475	-	29,475
Due from other funds	157,079	131,490	288,569
Inventories	5,540	-	5,540
Prepays	72,000	-	72,000
<b>TOTAL ASSETS</b>	<b>\$ 424,455</b>	<b>\$ 136,594</b>	<b>\$ 561,049</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES:</b>			
Accounts payable	\$ 27,250	\$ -	\$ 27,250
Due to other funds	50,397	-	50,397
<b>TOTAL LIABILITIES</b>	<b>77,647</b>	<b>-</b>	<b>77,647</b>
<b>FUND BALANCES:</b>			
Nonspendable:			
Inventories	5,540	-	5,540
Prepays	72,000	-	72,000
Restricted for:			
Debt service	-	136,594	136,594
Food service	269,268	-	269,268
<b>TOTAL FUND BALANCES</b>	<b>346,808</b>	<b>136,594</b>	<b>483,402</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 424,455</b>	<b>\$ 136,594</b>	<b>\$ 561,049</b>

**HOUGHTON LAKE COMMUNITY SCHOOLS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUND  
YEAR ENDED JUNE 30, 2017**

	<u>Special revenue</u>	<u>Debt service</u>	<u>Total nonmajor funds</u>
	<u>Food service</u>	<u>2017 Refunding</u>	
<b>REVENUES:</b>			
Local sources:			
Property taxes	\$ -	\$ 676,113	\$ 676,113
Investment earnings	600	-	600
Food sales	80,476	-	80,476
Total local sources	81,076	676,113	757,189
State sources	27,566	-	27,566
Federal sources	757,217	-	757,217
Total revenues	865,859	676,113	1,541,972
<b>EXPENDITURES:</b>			
Current:			
Food service activities	828,959	-	828,959
Capital outlay	8,200	-	8,200
Debt service:			
Principal repayment	-	345,000	345,000
Interest expense	-	134,435	134,435
Bond issuance costs	-	123,355	123,355
Payment to refunded bond escrows	-	247,000	247,000
Total expenditures	837,159	849,790	1,686,949
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	28,700	(173,677)	(144,977)
<b>OTHER FINANCING SOURCES (USES):</b>			
Proceeds from sale of refunding bonds	-	4,515,000	4,515,000
Payment to refunded bond escrows	-	(4,628,796)	(4,628,796)
Bond premium	-	237,151	237,151
Transfers out	(18,200)	-	(18,200)
Total other financing sources (uses)	(18,200)	123,355	105,155
<b>NET CHANGE IN FUND BALANCES</b>	10,500	(50,322)	(39,822)
<b>FUND BALANCES:</b>			
Beginning of year	336,308	186,916	523,224
End of year	\$ 346,808	\$ 136,594	\$ 483,402

**HOUGHTON LAKE COMMUNITY SCHOOLS  
 SCHEDULE OF BONDED DEBT SERVICE  
 QUALIFIED ZONE ACADEMY BONDS (QZAB)  
 JUNE 30, 2017**

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

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

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

**HOUGHTON LAKE COMMUNITY SCHOOLS  
 SCHEDULE OF BONDED DEBT SERVICE  
 REQUIREMENTS - 2008 DEBT  
 JUNE 30, 2017**

2008 General Obligation Bonds

Fiscal year year	Principal due May 1,	Interest due		Total due annually
		November 1	May 1	
2018	\$ 365,000	\$ 9,125	\$ 9,125	\$ 383,250

The above bonds dated September 30, 2008 were issued for the purpose of building and site purposes. The amount of the original bond issue was \$7,150,000. The above bonds carry interest rate of 5.00%. Bonds were partially refunded in 2017.

**HOUGHTON LAKE COMMUNITY SCHOOLS  
SCHEDULE OF BONDED DEBT SERVICE  
REQUIREMENTS - 2017 REFUNDING  
JUNE 30, 2017**

2017 Refunding Bonds

Fiscal year year	Principal due May 1,	Interest due		Total due annually
		November 1	May 1	
2018	\$ 115,000	\$ 82,521	\$ 65,725	\$ 263,246
2019	390,000	64,575	64,575	519,150
2020	395,000	60,675	60,675	516,350
2021	405,000	56,725	56,725	518,450
2022	420,000	50,650	50,650	521,300
2023	430,000	44,350	44,350	518,700
2024	445,000	37,900	37,900	520,800
2025	460,000	31,225	31,225	522,450
2026	470,000	24,325	24,325	518,650
2027	485,000	17,275	17,275	519,550
2028	500,000	10,000	10,000	520,000
Total	<u>\$ 4,515,000</u>	<u>\$ 480,221</u>	<u>\$ 463,425</u>	<u>\$ 5,458,646</u>

The above bonds dated March 15, 2017 were issued for the purpose of refunding a portion of the District's outstanding 2008 building and site bond. The amount of the original bond issue was \$7,150,000. The above bonds carry interest ranging from 2.00% to 4.00%.

**HOUGHTON LAKE COMMUNITY SCHOOLS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2017**

Federal grantor/pass-through grantor program title	Pass-through grantor's number	Federal CFDA number	Award amount	Accrued revenue 7/1/2016	Prior year expenditures (memorandum only)	Adjustments	Current year receipts (cash basis)	Current year expenditures	Accrued revenue 6/30/2017
Clusters:									
Child Nutrition Cluster - U.S. Department of Agriculture - Passed through Michigan Department of Education:									
Non-Cash Assistance (Commodities):									
National Lunch Program Bonus Commodities 2016-17	N/A	10.555	\$ 56,788	\$ -	\$ -	\$ -	\$ 56,788	\$ 56,788	\$ -
Cash assistance:									
National School Lunch Program - Section 11	161960	10.555	73,067	17,867	-	-	73,067	55,200	-
National School Lunch Program - Section 11	171960	10.555	445,660	-	-	-	445,660	465,003	19,343
National School Lunch Program - Section 11	161980	10.555	1,261	-	-	-	1,261	1,261	-
National School Lunch Program - Section 11	171980	10.555	16,905	-	-	-	16,905	16,905	-
National School Lunch Program (including commodities) Subtotal			<u>593,681</u>	<u>17,867</u>	<u>-</u>	<u>-</u>	<u>593,681</u>	<u>595,157</u>	<u>19,343</u>
National School Lunch Program - Breakfast	161970	10.553	21,310	5,784	-	-	21,310	15,526	-
National School Lunch Program - Breakfast	171970	10.553	134,748	-	-	-	134,748	140,157	5,409
National School Breakfast Program Subtotal			<u>156,058</u>	<u>5,784</u>	<u>-</u>	<u>-</u>	<u>156,058</u>	<u>155,683</u>	<u>5,409</u>
National School Lunch Program - Summer Food Service	160900-0916	10.559	6,144	362	-	-	6,144	5,782	-
National School Lunch Program - Summer Food Service	161900-0916	10.559	631	37	-	-	632	595	-
National School Lunch Program - Summer Food Service Subtotal			<u>6,776</u>	<u>399</u>	<u>-</u>	<u>-</u>	<u>6,776</u>	<u>6,377</u>	<u>-</u>
Total Child Nutrition Cluster			<u>756,515</u>	<u>24,050</u>	<u>-</u>	<u>-</u>	<u>756,515</u>	<u>757,217</u>	<u>24,752</u>

The accompanying notes are an integral part of this schedule.

**HOUGHTON LAKE COMMUNITY SCHOOLS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2017**

Federal grantor/pass-through grantor program title	Pass-through grantor's number	Federal CFDA number	Award amount	Accrued revenue 7/1/2016	Prior year expenditures (memorandum only)	Adjustments	Current year receipts (cash basis)	Current year expenditures	Accrued revenue 6/30/2017
Other federal awards:									
Passed through C.O.O.R.I.S.D.:									
Special Education Flowthrough:									
Special Education Flowthrough Grant 15-16	160450-1516	84.027	\$ 373,019	\$ 91,524	\$ 373,019	\$ -	\$ 91,524	\$ -	\$ -
Special Education Flowthrough Grant 16-17	170450-1617	84.027	416,909	-	-	-	378,974	416,909	37,935
Total Special Education Flowthrough			<u>789,928</u>	<u>91,524</u>	<u>373,019</u>	<u>-</u>	<u>470,498</u>	<u>416,909</u>	<u>37,935</u>
Passed through Michigan Department of Education:									
Adult Basic Education:									
Adult Basic Education	161130-161777	84.002	76,864	23,677	65,122	-	23,677	-	-
Adult Basic Education	171130-171777	84.002	65,000	-	-	-	57,638	65,000	7,362
Adult Basic Education	161190-161777	84.002	34,044	10,360	21,189	-	10,360	-	-
Adult Basic Education	171190-171777	84.002	42,156	-	-	-	17,416	18,130	714
Total Adult Basic Education			<u>218,064</u>	<u>34,037</u>	<u>86,311</u>	<u>-</u>	<u>109,091</u>	<u>83,130</u>	<u>8,076</u>
Title I Part A:									
Title I Part A 1516	161530-1516	84.010	659,121	196,560	678,822	(19,701)	176,859	-	-
Title I Part A 1617	171530-1617	84.010	653,276	-	-	-	523,954	653,276	129,322
Total Title I Part A			<u>1,312,397</u>	<u>196,560</u>	<u>678,822</u>	<u>(19,701)</u>	<u>700,813</u>	<u>653,276</u>	<u>129,322</u>
Title II Part A - Improving teacher quality:									
Title II Part A	160520-1516	84.367	204,276	29,685	172,754	-	29,685	-	-
Title II Part A	170520-1617	84.367	187,957	-	-	-	137,168	169,538	32,370
Total Title II Part A			<u>392,233</u>	<u>29,685</u>	<u>172,754</u>	<u>-</u>	<u>166,853</u>	<u>169,538</u>	<u>32,370</u>
Title VIB - Rural education initiative:									
Title VIB	160660-1516	84.358B	25,044	23,697	23,697	-	23,697	-	-
Title VIB	170660-1617	84.358B	27,408	-	-	-	-	27,408	27,408
Total Title VIB			<u>52,452</u>	<u>23,697</u>	<u>23,697</u>	<u>-</u>	<u>23,697</u>	<u>27,408</u>	<u>27,408</u>
Total passed through the Michigan Department of Education			<u>1,975,146</u>	<u>283,979</u>	<u>961,584</u>	<u>(19,701)</u>	<u>1,000,454</u>	<u>933,352</u>	<u>197,176</u>
Passed through Michigan Department of Health and Human Services:									
Safe Schools and Healthy Students:									
Safe Schools and Healthy Students	152704-SSHS2016	93.243	392,506	59,057	372,375	-	75,500	16,443	-
Safe Schools and Healthy Students	162704-SSHS2017	93.243	494,243	-	-	-	470,906	519,909	49,003
Total Safe Schools and Healthy Students			<u>886,749</u>	<u>59,057</u>	<u>372,375</u>	<u>-</u>	<u>546,406</u>	<u>536,352</u>	<u>49,003</u>
Total federal awards			<u>\$ 4,408,338</u>	<u>\$ 458,610</u>	<u>\$ 1,706,978</u>	<u>\$ (19,701)</u>	<u>\$ 2,773,873</u>	<u>\$ 2,643,830</u>	<u>\$ 308,866</u>

The accompanying notes are an integral part of this schedule.

**HOUGHTON LAKE COMMUNITY SCHOOLS  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2017**

1. Basis of presentation - The accompanying schedule of expenditures of federal awards (the "Schedule") includes the grant activity of Houghton Lake Community Schools under programs of the federal government for the year ended June 30, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Houghton Lake Community Schools, it is not intended to and does not present the financial position or changes in net position of Houghton Lake Community Schools.
2. Summary of Significant Accounting Policies - Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts (if any) shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available. Houghton Lake Community Schools has elected to not use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance. The District does not pass through federal funds.
3. Management has utilized the Cash Management System (CMS) and the Grant Section Auditors Report in preparing the Schedule of Expenditures of Federal Awards.
4. Federal expenditures are reported as revenue in the following funds in the financial statements:

General fund revenue	\$ 1,897,111
Other nonmajor governmental funds revenue	<u>757,217</u>
	2,654,328
Less federal forest payments not subject to 2 CFR 200	<u>(10,498)</u>
Total federal expenditures	<u><u>\$ 2,643,830</u></u>



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

To the Board of Education  
Houghton Lake Community Schools

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Houghton Lake Community Schools as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Houghton Lake Community Schools' basic financial statements and have issued our report thereon dated September 8, 2017.

**Internal Control Over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

*Maney Costeiran PC*

September 8, 2017

---

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

To the Board of Education  
Houghton Lake Community Schools

**Report on Compliance for Each Major Federal Program**

We have audited Houghton Lake Community Schools' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Houghton Lake Community Schools' major federal programs for the year ended June 30, 2017. Houghton Lake Community Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

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

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

***Opinion on Each Major Federal Program***

In our opinion, Houghton Lake Community Schools complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

**Report on Internal Control Over Compliance**

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

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

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

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

*Manes Costeiran PC*

September 8, 2017

**HOUGHTON LAKE COMMUNITY SCHOOLS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2017**

**Section I - Summary of Auditor's Results**

---

***Financial Statements***

Type of auditor's report issued: *Unmodified*

Internal control over financial reporting:

➤ Material weakness(es) identified?        Yes   X   No

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

Noncompliance material to financial statements noted?        Yes   X   No

***Federal Awards***

Internal control over major programs:

➤ Material weakness(es) identified?        Yes   X   No

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

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

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

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.553, 10.555 and 10.559	Child Nutrition Cluster

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

Auditee qualified as low-risk auditee?   X   Yes        No

**Section II - Financial Statement Findings**

---

None

**Section III - Federal Award Findings and Questioned Costs**

---

None

**HOUGHTON LAKE COMMUNITY SCHOOLS  
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2017**

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