



CERTIFIED PUBLIC ACCOUNTANTS

HILLMAN COMMUNITY SCHOOLS

Alpena, Montmorency and Presque Isle
Counties, Michigan

FINANCIAL REPORT
WITH SUPPLEMENTAL INFORMATION
June 30, 2015 and 2014



TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditors' Report	1 – 2
Management's Discussion and Analysis	3 – 9
Basic Financial Statements	
District-wide Financial Statements:	
Statement of Net Position	10
Statement of Activities	11
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	12
Reconciliation of Balance Sheet of Governmental Funds to Net Position	13
Statement of Revenue, Expenditures, and Changes in Fund Balances	14
Reconciliation of Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	15
Fiduciary Fund – Balance Sheet	16
Notes to Financial Statements	17 – 39
Required Supplemental Information	
Budgetary Comparison Schedule - General Fund	40
Budgetary Comparison Schedule – Food Service Fund	41
Schedule of the Reporting Unit's Proportionate Share of the Net Pension Liability	42
Schedule of the Reporting Unit's Contributions	43
Notes to Required Supplemental Information	44
Other Supplemental Information	
General Fund - Statement of Revenues, Expenditures, and Changes in Fund Balance	45 - 46
General Fund - Detail of Expenditures	47 - 48
Food Service Fund – Statement of Revenue, Expenditures, and Changes in Fund Balance	49
2005 Debt Retirement Fund – Statement of Revenues, Expenditures, and Changes in Fund Balance	50 - 51
Fiduciary Fund - Statement of Due to School Organizations	52
Detail of 2015 Refunding Bonds	53
Detail of Bus Note Payable	54
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	55- 56

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INDEPENDENT AUDITORS' REPORT

To The Board of Education
Hillman Community Schools
Alpena, Montmorency and Presque Isle Counties, Michigan
Hillman, Michigan 49746

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hillman Community Schools as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining

fund information of the Hillman Community Schools, as of June 30, 2015 and 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the years 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 budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

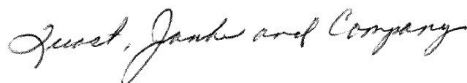
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hillman Community Schools' basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2015 on our consideration of the Hillman Community Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hillman Community Schools' internal control over financial reporting and compliance.

QUAST, JANKE AND COMPANY



Certified Public Accountants, P.C.
Bay City, Michigan 48708
October 18, 2015

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2015

This section of Hillman Community Schools' annual financial report presents our discussion and analysis of the School District's financial performance during the years ended June 30, 2015 and 2014. Please read it in conjunction with the School District's financial statements, which immediately follows this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Hillman Community Schools financially as a whole. The District-wide Financial Statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds – the General Fund, the Food Service Fund, and the 2005 Debt Retirement Fund with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary net position, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

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

Basic Financial Statements

District-wide Financial Statements Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)

Budgetary Information for the General Fund

Budgetary Information for the Food Service Fund

Other Supplemental Information

Reporting the School District as a Whole – District-wide Financial Statements

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net position and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2015

helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District's net position – the difference between assets and liabilities, as reported in the statement of net position – as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net position – as reported in the statement of activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net position and statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, supporting services, community services, athletics, and food services. Property taxes, unrestricted State Aid (foundation allowance revenue), and State and Federal grants finance most of these activities.

Reporting the School District's Most Significant Funds – Fund Financial Statements

The School District's fund financial statements provide detailed information about the most significant funds – not the School District as a whole. Some funds are required to be established by State law. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Food Service Fund is an example) or to show that it's meeting legal responsibilities for using certain taxes, grants, and other money. The governmental funds of the School District use the following accounting approach:

Governmental funds – All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds in a reconciliation.

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2015

The School District as Trustee – Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary net position. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The School District as a Whole

Recall that the statement of net position provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net position as of June 30, 2015 and 2014.

TABLE 1:

	Governmental Activities	
	June 30, 2015	June 30, 2014
Assets		
Current and other assets	\$ 1,205,764	\$ 1,332,043
Capital assets – Net of accumulated depreciation	6,362,361	6,564,665
Total Assets	7,570,377	7,896,708
Deferred Outflows of Resources	602,113	0
Liabilities		
Current liabilities	1,043,329	899,707
Long-term liabilities	9,409,367	4,126,655
Total Liabilities	10,452,696	5,026,359
Deferred Inflows of Resources	652,730	0
Net Position		
Invested in property and equipment – Net of related debt	2,391,698	2,113,637
Restricted	10,886	6,467
Unrestricted	(5,335,520)	750,245
Total Net Position	\$ (2,932,936)	\$ 2,870,349

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2015

The above analysis focuses on the net position (see Table 1). The change in net position (see Table 2) of the School District's governmental activities is discussed below. The School District's net position was \$ (2,932,936) at June 30, 2015. Capital assets, net of related debt compares the original cost, less depreciation of the School District's capital assets to long-term debt. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use the net position for day-to-day operations. The remaining amount of net position, \$ (5,335,520) was unrestricted.

The \$ (5,335,520) in unrestricted net position of governmental activities represents the accumulated results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net position for fiscal years ended June 30, 2015 and 2014.

TABLE 2:

	Governmental Activities	
	42,185	41,820
Program revenue:		
Charges for services	\$ 146,839	\$ 139,963
Grants and catagoricals	1,084,596	1,015,047
General revenue:		
Property taxes	2,437,012	2,570,799
State PILT	16,697	15,741
State unrestricted aid	1,823,085	1,616,542
Investment earnings	14,716	14,115
Other	39,352	23,622
Total revenue	5,562,296	5,395,829
Function/Program Expenses		
Instruction	2,909,442	2,906,223
Support service	1,880,128	1,705,827
Community service	0	393
Food service	308,452	311,747
Interest on long-term debt	84,525	220,530
Depreciation (unallocated)	228,050	228,216
Total expences	5,410,597	5,372,936
Increase (Decrease) in Net Position	\$ 151,699	\$ 22,893

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2015

As reported in the statement of activities, the cost of all of our governmental activities this year was \$ 5,410,597. Certain activities were partially funded from those who benefited from the program or by other governments and organizations that subsidized certain programs with grants and categoricals. We paid for the remaining "public benefit" portion of our governmental activities with \$ 2,437,012 in taxes, \$ 1,823,085 in State Unrestricted Aid, and with our other revenues, such as interest and general entitlements.

The School District experienced an increase in net position of \$ 151,699. Key reasons for the change in net position were continued fiscal management. The increase in net position differs from the change in fund balance and reconciliation appears on page 15.

As discussed above, the net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted State aid constitute the vast majority of School District operating revenue sources, the Board of Education and Administration must annually evaluate the needs of the School District and balance those needs with State-prescribed available unrestricted resources.

The School District's Funds

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

As the School District completed this year, the governmental funds reported a combined fund balance of \$ 734,065, which is a decrease of \$ 160,320 from last year. The primary reason for this decrease is increasing health care and retirement costs. Also, in the General Fund, our principal operating fund, the balance decreased \$ 131,994 to \$ 657,694. Overall, actual General Fund revenue and expenses were within 99 and 97 percent of budgeted amounts, respectively.

The 2005 Debt Retirement Fund fund balance decreased by \$ 29,156.
The Food Service Fund Balance increased by \$ 829.

General Fund Budgetary Highlights

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

There were no significant variances between the final budget and actual costs.

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2015

Capital Asset and Debt Administration

Capital Assets

At June 30, 2015, the School District had \$ 13,255,691 invested in a broad range of capital assets, including land, buildings, vehicles, and equipment. This amount represents a net decrease (including additions and disposals) of \$ 24,091.

	<u>2015</u>	<u>2014</u>
Land and improvements	\$ 592,185	\$ 592,185
Buildings and improvements	9,829,091	9,829,091
Buses and Other Vehicles	572,836	654,410
Equipment	<u>2,220,669</u>	<u>2,180,005</u>
Total capital assets	13,214,781	13,225,691
Less accumulated depreciation	<u>6,852,420</u>	<u>6,691,026</u>
Net capital assets	<u>\$ 6,362,361</u>	<u>\$ 6,564,665</u>

This year's additions of \$ 94,678 consisted of technology, shop equipment, and buses.

Debt

At the end of this year, the School District had \$ 3,970,663 in bonds outstanding versus \$ 4,451,028 in the previous year. These bonds consisted of the following:

2015 Refunding Bonds	\$ 3,955,000
Bus notes	<u>15,663</u>
	<u>\$ 3,970,663</u>

The School District's General Obligation Bond rating continues to be equivalent to the State's credit rating. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this limit. The School District's outstanding unqualified general obligation debt of \$ 3,970,663 is significantly below the statutorily imposed limit.

Other obligations include employee-compensated absences. We present more detailed information about our long-term liabilities in the notes to the financial statements.

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2015

Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration consider many factors when setting the School District's 2016 fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2016 fiscal year is 90 percent and 10 percent of the September 2015 and February 2016 student counts, respectively. The 2016 fiscal year budget was adopted in June 2015, based on an estimate of students that will be enrolled in September of 2015. Approximately 45 percent of total General Fund revenues is from state funding. Under State law, the School District cannot access additional property tax revenue for general operations. As a result, District funding is heavily dependent on the State's ability to fund local school operation. Based on early enrollment data at the start of the 2015-2014 school year, we anticipate that the fall student count will be slightly less than the estimates used in creating the 2016 fiscal year budget. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget if actual District resources are not sufficient to fund original appropriations.

Since the School District's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts. The State periodically holds a revenue-estimating conference to estimate revenues. Based on the results of the most recent conference, the State estimates a slight increase in the foundation allowance.

Contacting the School District's Financial Management

This financial report is designed to provide the School District's citizens, taxpayers, customers, and investors and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Manager, Jill Olsen at Hillman Community Schools, 245 Third Street, PO Box 518, Hillman, Michigan 49746.

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

STATEMENTS OF NET POSITION
June 30, 2015 and 2014

	June 30,	
	2015	2014
ASSETS:		
Cash & equivalents	\$ 736,891	\$ 893,074
Accounts receivable	800	13,950
Taxes receivable	9	0
Due from other governmental units	459,429	418,552
Prepaid items	5,841	175
Inventories	5,045	6,292
Capital assets	13,214,781	13,255,691
Accumulated depreciation	(6,852,420)	(6,691,026)
Total Assets	7,570,377	7,896,708
DEFERRED OUTFLOWS OF RESOURCES:		
Related to pensions	602,113	0
LIABILITIES:		
Accounts payable	48,721	11,610
Accrued payroll and other liabilities	425,230	426,047
Accrued interest	17,226	31,774
Compensated absences	86,489	105,900
Net pension liability	5,904,367	0
Current portion of long term liabilities	465,663	430,273
Non current portion of long term liabilities	3,505,000	4,020,755
Total Liabilities	10,452,696	5,026,359
DEFERRED INFLOWS OF RESOURCES:		
Related to pensions	652,730	0
NET POSITION:		
Investment in capital assets - net of related debt	2,391,698	2,113,637
Restricted	10,886	6,467
Unrestricted	(5,335,520)	750,245
Total Net Position	\$ (2,932,936)	\$ 2,870,349

See Notes to Financial Statements

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

STATEMENT OF ACTIVITIES
Years Ended June 30, 2015 and 2014

	Program Revenues				Governmental Activities	
	Expenses	Charges for Services	Operating Grants/ Contributions	Capital Grants/ Contributions	Net (Expenses) Revenues And Changes in Net Position 2015	2014
GOVERNMENTAL ACTIVITIES:						
Instruction	\$ 2,909,442	\$ 24,896	\$ 516,676	\$ 10,000	\$ (2,357,870)	\$ (2,445,130)
Supporting Services	1,880,128	52,705	346,125	0	(1,481,298)	(1,299,369)
Community Services	0	0	0	0	0	(393)
Food Services	308,452	69,238	211,795	0	(27,419)	(24,288)
Interest on long term debt	84,525	0	0	0	(84,525)	(220,530)
Depreciation (Unallocated)	228,050	0	0	0	(228,050)	(228,216)
Total Governmental Activities	\$ <u>5,410,597</u>	\$ <u>146,839</u>	\$ <u>1,074,596</u>	\$ <u>10,000</u>	(4,179,162)	(4,217,926)
GENERAL PURPOSE REVENUES:						
Property taxes, levied for operating purposes					1,860,390	1,987,122
Property taxes, levied for debt retirement					576,622	583,677
State school aid - Unrestricted					1,823,085	1,616,542
State PILT					16,697	15,741
Investment earnings					14,716	14,115
Other					<u>39,352</u>	<u>23,622</u>
Total General Purpose Revenues					<u>4,330,861</u>	<u>4,240,819</u>
Change in Net Assets					151,699	22,893
Net Assets - Beginning of Year, as Reported					2,870,349	3,037,271
Prior Period Adjustment - GASB 68					(5,954,984)	0
Prior Period Adjustment - Deferred Bond Costs					0	(182,446)
Prior Period Adjustment - State Aid					0	(7,369)
Net Assets - Beginning of Year, as Adjusted					<u>(3,084,635)</u>	<u>2,847,456</u>
Net Assets - End of Year					\$ <u>(2,932,936)</u>	\$ <u>2,870,349</u>

See Notes to Financial Statements

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

GOVERNMENTAL FUNDS BALANCE SHEET
June 30, 2015 and 2014

ASSETS	2015			Totals June 30	
	GENERAL	FOOD SERVICE	2014 DEBT RETIREMENT	2015	2014
Cash	\$ 657,054	\$ 15,275	\$ 64,562	\$ 736,891	\$ 893,074
Taxes receivable	0	0	9	9	0
Accounts receivable	156	644	0	800	14,339
Grants receivable	43,517	0	0	43,517	35,318
Due from State of Michigan	415,912	0	0	415,912	382,845
Due from ESD	0	0	0	0	0
Prepaid items	5,841	0	0	5,841	175
Inventory	0	5,045	0	5,045	6,292
	<u>\$ 1,122,480</u>	<u>\$ 20,964</u>	<u>\$ 64,571</u>	<u>\$ 1,208,015</u>	<u>\$ 1,332,043</u>
LIABILITIES AND FUND EQUITY					
LIABILITIES:					
Accounts payable	\$ 48,721	\$ 0	\$ 0	\$ 48,721	\$ 11,610
Salaries payable	266,173	5,005	0	271,178	265,667
Retirement	89,449	1,672	0	91,121	78,525
Payroll taxes	18,588	309	0	18,897	18,916
Employee benefits	32,683	1,146	0	32,683	30,652
Unavailable revenue	9,172	1,033	0	10,205	32,288
	<u>464,786</u>	<u>9,165</u>	<u>0</u>	<u>472,805</u>	<u>405,370</u>
DEFERRED INFLOWS OF RESOURCES:					
Unavailable revenue	0	0	0	0	0
FUND BALANCES:					
Nonspendable	0	5,045	0	5,045	5,732
Restricted	0	6,755	64,571	71,326	99,140
Assigned	266,124	0	0	266,124	290,076
Unassigned	391,570	0	0	391,570	499,437
	<u>657,694</u>	<u>11,799</u>	<u>64,571</u>	<u>734,065</u>	<u>894,385</u>
	<u>\$ 1,122,480</u>	<u>\$ 20,964</u>	<u>\$ 64,571</u>	<u>\$ 1,206,870</u>	<u>\$ 1,332,043</u>

See Notes to Financial Statements

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

GOVERNMENTAL FUNDS
RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO NET POSITION
June 30, 2015

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS \$ 734,065

Amounts reported for governmental activities in the statement
of net position are different because -

Capital assets used in governmental activities are not financial
resources and are not reported in the funds:

Capital assets at cost	13,214,781
Accumulated depreciation	(6,852,420)

Long term liabilities not due and payable in the current period
and therefore not reported in the funds -

Bonds payable	(3,970,663)
Compensated balances	(86,489)
Net Pension Liability	(5,904,367)

Deferred inflows of resources related to pensions	(652,730)
---	-----------

Deferred outflows of resources related to pensions	602,113
--	---------

Accrued interest payable not included as a liability in governmental activities	(17,226)
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Rounding	<u>0</u>
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TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES \$ (2,932,936)

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE
Years Ended June 30, 2015 and 2014

	GENERAL	FOOD SERVICE	2005 DEBT RETIREMENT	TOTALS JUNE 30, 2015	2014
REVENUES:					
Local Sources	\$ 2,042,247	\$ 69,238	\$ 576,622	\$ 2,688,107	\$ 2,769,284
State Sources -	2,294,691	14,857	16,697	2,326,245	2,075,726
Federal Sources	191,959	196,938	0	388,897	394,773
Interdistrict and Other Sources	153,574	0	0	153,574	154,166
Total Revenues	4,682,471	281,033	593,319	5,556,823	5,393,949
EXPENDITURES:					
Instruction	2,938,449	0	0	2,938,449	2,915,811
Supporting Services	1,839,496	0	0	1,839,496	1,662,281
Community Services	0	0	0	0	393
Food Service	0	305,476	0	305,476	299,620
Debt Service -					
Principal Repayment	0	0	465,000	465,000	395,000
Interest and Fiscal Charges	0	0	157,475	157,475	200,947
Total Expenditures	4,777,945	305,476	622,475	5,705,896	5,474,052
OTHER FINANCING SOURCES (USES):					
Operating transfer in	0	48,272	0	48,272	26,849
Operating transfer (out)	(48,272)	0	0	(48,272)	(26,849)
Sale of assets	5,473	0	0	5,473	1,877
Indirect costs	0	(23,000)	0	(23,000)	(22,964)
Indirect cost recovery	23,000	0	0	23,000	22,964
Redemption of school bus loans	(15,365)	0	0	(15,365)	(14,635)
Interest on school bus loans	(1,357)	0	0	(1,357)	(2,086)
Net Other Financing Sources (Uses)	(36,520)	25,272	0	(11,249)	(14,844)
NET CHANGE IN FUND BALANCES	(131,994)	829	(29,156)	(160,321)	(94,947)
Prior Period Adjustment - State Aid	0	0	0	0	(7,369)
FUND BALANCE - BEGINNING OF YEAR	789,688	10,970	93,727	894,385	996,701
FUND BALANCE - END OF YEAR	\$ 657,694	\$ 11,799	\$ 64,571	\$ 734,064	\$ 894,385

See Notes to Financial Statements

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

GOVERNMENTAL FUNDS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
Year Ended June 30, 2015

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ (160,321)

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	(296,982)	
Capital outlay	<u>94,678</u>	
Net		(202,304)

Accrued interest recorded in the statement of activities when incurred and reported in governmental funds when paid	14,548
---	--------

Bond principal repayment reported as an expenditure in governmental funds and as a reduction of long term debt in the statement of activities	480,365
---	---------

Amortization of bond issuance costs and premiums previously reported as expenditures in governmental funds and currently reported as deferred expenses and amortized in the statement of activities	0
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Decreases in compensated absences are reported as expenditures when financial resources are used in the governmental funds in accordance with GASB Interpretation No. 6	19,411
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Rounding	<u>0</u>
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CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 151,699

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

FIDUCIARY FUND
BALANCE SHEET
June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
Cash in bank	\$ <u>68,649</u>	\$ <u>77,534</u>
LIABILITIES		
Due to school organizations	\$ <u>68,649</u>	\$ <u>77,534</u>

See Notes to Financial Statements

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Hillman Community Schools conform to United States generally accepted accounting principles as applicable to governmental units.

Reporting Entity

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

District-wide and Fund Financial Statements

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

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

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

GASB 68

The District has adopted the provisions of GASB Statement Number 68 (GASB 68), *Accounting and Financial Reporting for Pensions* in the current year. The statement requires governments that participate in defined benefit plans to report in their statement of net position an actuarial calculation of the net pension liability. The net pension liability (the present value of projected benefit payments to employees based on their past service) and the assets

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.):

(mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees and their beneficiaries. Statement 68 requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the cost-sharing plan. The Statement will also improve the comparability and consistency of how governments calculate the pension liabilities and expense. The impact of this statement on the district-wide financial statements is significant.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

Fund-based Statements - Governmental funds financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within approximately 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.

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

The School District reports the following major governmental funds:

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

General Fund -

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

Food Service Fund –

This Fund's primary purpose is the provision of breakfasts and lunches to the District's pupils.

2005 Debt Retirement Fund -

This fund's primary purpose is the collection of tax levies for the retirement of the 2005 refunding bonds issued by the School District.

Assets, Liabilities, and Net Position or Equity -

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

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

Property taxes are assessed as of December 31 and the related property taxes become a lien on December 1, of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the County tax rolls.

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. United States Department of Agriculture Commodities inventory received by the Food Service Fund are recorded as inventory and deferred revenue until used. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both district-wide and fund financial statements.

Capital Assets - Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities column in the district-wide financial statements. Capital assets are defined by the School District as assets with an individual cost of more than \$1,000 and any assets susceptible to theft. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized.

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

The School District does not have any infrastructure-type assets.

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

Buildings and additions	20-50 years
Buses and other vehicles	5-10 years
Furniture and other equipment	3-10 years
Land improvements	12-30 years

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

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

Fund Equity – Beginning with the year ended June 30, 2012 the District implemented GASB Statement 54 “Fund Balance Reporting and Governmental Fund Type Definitions”. The Statement provided more clearly defined fund balance categories to make the nature and extent of the constraints placed upon a government’s fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which the resources can be used:

- Nonspendable – amounts that are not in a spendable form such as inventory;
- Restricted – amounts constrained to specific purposes by their providers, through constitutional provisions, or by enabling legislation;
- Committed – amounts constrained to specific purposes by a government itself.
- Assigned – amounts a government intends to use for a specific purpose.
- Unassigned – amounts that are available for any purpose, positive amounts are only reported in general fund.

The provisions of GASB 54 have been retroactively applied to the prior year and the financial statements have been restated to reflect these changes. These changes had no effect on net income.

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and State law for the General and Special Revenue Funds. All annual appropriations lapse at fiscal year end. The budget document presents information by

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continued):

by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the School District to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. There were no significant amendments during the year.

Excess of Expenditures Over Appropriations in Budgeted Funds - The School District did not have Expenditure budget variances.

Fund Deficits - The School District had no accumulated fund balance deficits.

NOTE 3. CASH AND AND EQUIVALENTS – CREDIT RISK:

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 for any one type of security or issuer will be minimized.

Custodial Credit Risk for 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. At June 30, 2015 the carrying amount of the District's deposits was \$ 800,918.44 and the bank balance was \$ 839,137.83. The uninsured balance was \$ 0.

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

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business. The District had no investments at June 30, 2015.

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 4. CAPITAL ASSETS:

Capital asset activity of the School District's governmental activities was as follows:

	Balance July 1, 2014	Additions	Disposal	Balance June 30, 2015
Land and improvements	\$ 592,185	\$ -	\$ -	\$ 592,185
Buildings and improvements	9,829,091	-	-	9,829,091
Buses and other vehicles	654,410	52,213	135,588	571,036
Furniture and equipment	<u>2,180,005</u>	<u>42,464</u>	-	<u>2,222,470</u>
Total Capital Assets	13,255,691	94,678	135,588	13,214,781
Accumulated Depreciation				
Land and improvements	241,597	17,785	-	259,383
Buildings and improvements	4,009,996	185,787	-	4,195,783
Buses and other vehicles	565,584	26,194	135,588	456,190
Furniture and equipment	<u>1,873,849</u>	<u>67,217</u>	-	<u>1,941,065</u>
Total Accumulated Depreciation	<u>6,691,026</u>	<u>296,982</u>	<u>135,588</u>	<u>6,852,420</u>
Capital Assets	<u>\$ 6,564,665</u>	<u>\$ (202,304)</u>	<u>\$ -</u>	<u>\$ 6,362,361</u>

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

Governmental activities:	
Instruction	\$ 14,627
Support services	51,328
Food services	2,977
Unallocated	<u>228,050</u>
Total governmental activities	<u>\$ 296,982</u>

NOTE 5. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS:

There are no interfund receivables or payables.

Operating transfers out from the General Fund are as follows:

Food Service Fund	\$ 48,272
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HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 6. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES:

In addition to assets, the statement of financial position and or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The School District has only one item that qualifies for reporting in this category. It relates to the District's net pension plan liability and is composed from the changes in assumptions, changes in proportion and differences between the District's contributions and proportionate share of contributions, and the District's contributions subsequent to the measurement date.

In addition to liabilities, the statement of financial position and or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The School District has only one type of item, which arises from the District's net pension plan liability. It is composed of the District's share of the net difference between projected and actual earnings on pension plan investments.

NOTE 7. LONG-TERM DEBT:

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General Obligation Bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include compensated absences, claims and judgments, termination benefits, and certain risk liabilities.

On February 10, 2015 the District issued 2015 Refunding Bonds in the amount of \$3,955,000. The bonds are general obligation bonds of the District, and are payable as to principal and interest from the proceeds of an annual ad valorem tax, levied without limitation as to rate of amount, on all taxable property within the boundaries of the School District. The proceeds of this issue were to be used for the purpose of refunding all of the District's outstanding 2005 Refunding Bonds dated May 1, 2005.

The Bonds are fully qualified for the Michigan School Bond Qualification and Loan Program pursuant to Act 92, Public Acts of Michigan, 2005, as amended, enacted pursuant to Article IX, Section 16 of the Michigan Constitution of 1963. Under the terms of these constitutional and statutory provisions, if for any reason the District is unable to pay principal of and interest on the Bonds when due, then the District shall borrow and the State of Michigan shall lend to it an amount sufficient to enable the District to make payment.

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 7. LONG-TERM DEBT (continued):

The following is a summary of the long-term debt transactions of the District for the year ended June 30, 2015:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reduction</u>	<u>Ending Balance</u>
Bonds Payable-				
Bus Notes	\$ 31,028	\$ 0	\$ 15,365	\$ 15,663
2005 Refunding	4,420,000	0	4,420,000	0
2015 Refunding	<u>0</u>	<u>3,955,000</u>	<u>0</u>	<u>3,955,000</u>
	4,451,028	3,955,000	4,435,365	0
Other Obligations-				
Compensated Absences	<u>105,900</u>	<u>0</u>	<u>19,411</u>	<u>86,489</u>
	<u>\$ 4,556,928</u>	<u>\$ 3,955,000</u>	<u>\$ 4,454,776</u>	<u>\$ 4,057,152</u>

Annual debt service requirements to maturity for the above governmental fund obligations are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 465,663	\$ 100,815	\$ 566,478
2017	475,000	72,729	547,729
2018	485,000	63,226	548,226
2019	490,000	53,526	543,526
2020	500,000	43,726	543,726
2021-2023	<u>1,155,000</u>	<u>70,378</u>	<u>1,225,378</u>
	<u>\$ 4,451,028</u>	<u>\$ 404,400</u>	<u>\$ 3,975,063</u>

Bonds and other obligations payable consist of the following:

2015 Refunding Bonds, date February 10, 2015, with interest of 2.000% payable May 1 And November 1.	\$ 3,955,000
Bus Notes payable	15,663
Accrued sick pay	<u>86,489</u>
	<u>\$ 4,057,152</u>

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 7. LONG-TERM DEBT (continued):

Other Obligations –

Compensated Absences:

The District accrues a liability for compensated absences which meet the following criteria:

- (1) The District's obligation relating to employees' rights to receive compensation for future absences is attributable to employees' services already rendered.
- (2) The obligation relates to rights that vest or accumulate.
- (3) Payment of the compensation is probable.
- (4) The amount can be reasonably estimated.

All teaching staff, after twelve years of employment with the district, are eligible to be reimbursed for accumulated sick days, up to a maximum of 188 days, upon retirement from teaching. They will be reimbursed at the then daily substitute teaching pay rate, which was \$75 for the year ended June 30, 2015. As of June 30, 2015 the amount which would be due upon retirement for eligible staff is \$ 86,489.

NOTE 8. RISK MANAGEMENT:

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

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

NOTE 9. ECONOMIC DEPENDENCY:

Approximately 45% of the District's General Fund revenues are received from the State of Michigan through the Michigan Department of Education. This District is considered to be economically dependent on this revenue source.

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 10. RETIREMENT PLAN:

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

- Two active classroom teachers or other certified school personnel.
- One active member or retirant from a non-certified support position.
- One active school system superintendent.
- One active finance or operations (non-superintendent) member.
- One retirant from a classroom teaching position.
- One retirant from a finance or operations management position.
- One administrator or trustee of a community college that is a reporting unit of the System.
- Two from the general public, one with health insurance or actuarial science experience and one with institutional investment experience.
- One elected member of a reporting unit's board of control.

The System's pension plan was established by the State to provide retirement, survivor and disability benefits to public school employees. In addition, the System's health plan provides all retirees with the option of receiving health, dental and vision coverage under the Michigan Public School Employees' Retirement Act. There are 685 participating employers. A list of employers is provided in the Statistical Section. The System is a qualified pension trust fund under section 401(a) of the Internal Revenue Code. By statute, employees of K-12 public school districts, public school academies, district libraries, tax-supported community colleges and seven universities may be members. The seven universities are: Eastern Michigan, Central Michigan, Northern Michigan, Western Michigan, Ferris State, Michigan Technological and Lake Superior State. Employees, who first become employed by one of the seven universities on or after January 1, 1996, become members of an alternative plan.

The System's financial statements are included as a pension and other employee benefit trust fund in the State of Michigan Comprehensive Annual Financial Report.

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

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 10. RETIREMENT PLAN (Continued):

Membership

At September 30, 2014, the System's membership consisted of the following:

Inactive plan members or their beneficiaries currently receiving benefits:

Regular benefits	181,489
Survivor benefits	16,855
Disability benefits	<u>6,168</u>
Total	204,512

Inactive plan members entitled to but not yet receiving benefits: 16,979

Active plan members:

Vested	108,934
Non-vested	<u>101,843</u>
Total	210,777

Total plan members **432,268**

Benefits Provided

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Retirement benefits for DB plan members are determined by final average compensation and years of service. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

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

Member Contributions

Mandatory member contributions were phased out between 1974 and 1977, with the plan remaining noncontributory until January 1, 1987, when the Member Investment Plan (MIP) was enacted. MIP members enrolled prior to January 1, 1990, contribute at a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 10. RETIREMENT PLAN (Continued):

date of the MIP, until January 1, 1990, when it was reduced to 3.9%. Members first hired between January 1, 1990 and June 30, 2008, and returning members who did not work between January 1, 1987, through December 31, 1989, contribute at the following graduated permanently fixed contribution rates: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Members first hired July 1, 2008, or later including Pension Plus Plan members, contribute at the following graduated permanently fixed contribution rates: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 6.4% of all wages over \$15,000.

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

Under Public Act 300 of 2012, eligible members voluntarily chose between increasing, maintaining, or stopping their contributions to the pension fund as of the transition date. Their options are described in detail under Pension Reform 2012 beginning on page 23. Members who elected to increase their level of contribution contribute 4% (Basic Plan) or 7% (MIP); by doing so they maintain a 1.5% pension factor in their pension formula. Members who elected to maintain their level of contribution will receive a 1.25% pension factor in their pension formula for their years of service as of their transition date. Their contribution rates are described above. Members who elected to stop their contributions became participants in the Defined Contribution plan as of their transition date.

Employer Contributions

Each school district or reporting entity is required to contribute the full actuarial funding contribution amount to fund pension benefits.

Basis of Accounting and Presentation

The School District's financial statements are prepared using the accrual basis of accounting. Contributions from the employers are recognized as revenue when due and payable. Benefits and refunds are recognized when due and payable in accordance with the terms of the System. The reserves are described below and details are provided in the supporting schedules.

GASB Statement No. 67, which was adopted during the year ended September 30, 2014, addresses accounting and financial reporting requirements for pension plans. The requirements for GASB Statement No. 67 require changes in presentation of the financial statements, notes

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 10. RETIREMENT PLAN (Continued):

to the financial statements, and required supplementary information.

Significant changes include an actuarial calculation of total and net pension liability. It also includes comprehensive footnote disclosure regarding the pension liability, the sensitivity of the net pension liability to the discount rate, and increased investment activity disclosures. The implementation of GASB Statement No. 67 did not significantly impact the accounting for accounts receivable and investment balances.

Reserves

Reserve for Employee Contributions - This reserve represents active member contributions and interest less amounts transferred to the Reserve for Retired Benefit Payments for regular and disability retirement, amounts refunded to terminated members, and amounts transferred to the Reserve for Employer Contributions representing unclaimed funds.

Members no longer contribute to this reserve except to purchase eligible service credit or repay previously refunded contributions. At September 30, 2014, the balance in this reserve was \$1.5 billion.

Reserve for Pension Plus Employee Contributions - This reserve represents active member contributions and interest less amounts transferred to the Reserve for Pension Plus Retired Benefit Payments for regular retirement, amounts refunded to terminated members, and amounts transferred to the Reserve for Pension Plus Employer Contributions representing unclaimed funds. This reserve was established under the provisions of Public Act 75 of 2010. At September 30, 2014, the balance in this reserve was \$59.5 million. Reserve for Member Investment Plan - This reserve represents MIP contributions and interest less refunds and transfers to the Reserve for Retired Benefit Payments. At September 30, 2014, the balance in this reserve was \$4.7 billion.

Reserve for Employer Contributions - This reserve represents all reporting unit contributions, except payments for health benefits. Interest from the Reserve for Undistributed Investment Income reserve is credited annually. Amounts are transferred annually to the Reserve for Retired Benefit Payments to bring the balance of that reserve into balance with the actuarial present value of retirement allowances. At September 30, 2014, the balance in this reserve was (\$25.8) billion.

Reserve for Pension Plus Employer Contributions - This reserve represents all reporting unit contributions for Pension Plus members, except payments for health benefits. Interest from the Reserve for Undistributed Investment Income reserve is credited annually at a rate of 7%. Amounts are transferred annually to the Reserve for Retired Pension Plus Benefit Payments to bring the balance of that reserve into balance with the actuarial present value of retirement allowances. This reserve was established under the provisions of Public Act 75 of 2010. At September 30, 2014, the balance in this reserve was \$55.5 million.

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 10. RETIREMENT PLAN (Continued):

Reserve for Retired Benefit Payments - This reserve represents payments of future retirement benefits to current retirees. At retirement, a member's accumulated contributions plus interest are transferred into this reserve. Monthly benefits, which are paid to the retiree, reduce this reserve. At the end of each fiscal year, an amount, determined by an annual actuarial valuation, is transferred from the Reserve for Employer Contributions to bring the balance of this reserve into balance with the actuarial present value of retirement allowances. At September 30, 2014, the balance in this reserve was \$44.6 billion.

Reserve for Retired Pension Plus Benefit Payments - This reserve represents payments of future retirement benefits to current Pension Plus retirees. At retirement, a member's accumulated contributions plus interest are transferred into this reserve. Monthly benefits, which are paid to the retiree, reduce this reserve. At the end of each fiscal year, an amount, determined by an annual actuarial valuation, is transferred from the Reserve for Pension Plus Employer Contributions to bring the balance of this reserve into balance with the actuarial present value of retirement allowances. This reserve was established under the provisions of Public Act 75 of 2010. Currently, there are no participants qualified to retire under this program. At September 30, 2014, the balance in this reserve was \$0.

Reserve for Undistributed Investment Income - This reserve represents all investment earnings. Interest is transferred annually to the other reserves. Administrative expenses of the System are paid from the Reserve for Administrative Expenses, which is credited with amounts from the Reserve for Undistributed Investment Income to cover the expenses. For ease of reporting and understanding, the two reserves are presented as one reserve in the supporting schedules. Public Act 143 of 1997 established a stabilization subaccount within the Reserve for Undistributed Investment Income to which any over funding is credited. As of September 30, 2014, the balance in the subaccount was zero. At September 30, 2014, the balance in this reserve was \$18.6 billion.

Reserve for Health (OPEB) Related Benefits - This reserve is credited with employee and employer contributions for retirees' health, dental, and vision benefits. Starting in fiscal year 2013, the employer contribution is based on a prefunded basis and represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liability (or funding excess) over a period not to exceed thirty years. In addition, in fiscal year 2014, federal funding for Medicare Part D and Employer Group Waiver Plan (EGWP) was paid directly to a third party vendor. The third party vendor uses the EGWP funding for any claims submitted and bills the system for any remaining claims outstanding. Premiums for health, dental and vision benefits are paid from this reserve. At September 30, 2014, the balance in this reserve was \$3.5 billion.

Reporting Entity

The System is a pension and other employee benefit trust fund of the State. As such, the System is considered part of the State and is included in the State's Comprehensive Annual

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 10. RETIREMENT PLAN (Continued):

Financial Report as a pension and other employee benefit trust fund. The System and its Board are not financially accountable for any other entities or other organizations. Accordingly, the System is the only entity included in this financial report.

Benefit Protection

Public Act 100 of 2002 was passed by the Michigan Legislature to protect pension benefits of public employees from alienation (being transferred). Alienation is attachment, garnishment, levy, execution, bankruptcy or other legal process except for divorce orders or eligible domestic relation orders. The statutes governing the System contained an "antialienation" clause to provide for this protection; however, many smaller public pension systems did not have the benefit of this protection. Therefore, Public Act 100 of 2002 was passed to establish legal protection of pension assets that encompasses all public employees.

Fair Value of Investments

Plan investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Corporate bonds not traded on a national or international exchange are based on equivalent values of comparable securities with similar yield and risk. The fair value of private investments is based on the net asset value reported in the financial statements of the respective investment entity. The net asset value is determined in accordance with governing documents of the investment entity, and is subject to an independent annual audit. Securities purchased with cash collateral under securities lending activities are recorded at estimated fair value. Other investments not having an established market are recorded at estimated fair value.

Investment Income

Dividend and interest income is recognized on the accrual basis. Fair value changes are recorded as investment income or loss. Purchases and sales of investments are recorded as of the trade date (the date upon which the transaction is initiated), except for purchase and sale of mortgages, real estate, and alternative investments which are recorded as of the settlement date (the date upon which the transaction is ultimately completed). The effect of recording such transactions as of the settlement date does not materially affect the financial statements.

Costs of Administering the System

Each year a restricted general fund appropriation is requested to fund the on-going business operations of the System. These administrative costs are ultimately funded by the System through the regular transfer of funds from the System to the State's general fund based on either a direct cost or allocation basis depending on the nature of the expense. Costs of administering the System are financed by undistributed investment income of the System.

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 10. RETIREMENT PLAN (Continued):

Property and Equipment

Office space is leased from the State on a year to year basis. Office equipment is capitalized if the value exceeds \$5,000. These assets are recorded at cost and are reported net of depreciation in the Statement of Pension Plan and Other Postemployment Benefit Plan Fiduciary Net Position. Such assets are depreciated on a straight-line basis over 10 years. As of September 30, 1998, all capitalized equipment was fully depreciated. No additional equipment has been capitalized for the System since that date.

Related Party Transactions

Leases and Services - The System leases operating space and purchases certain administrative, data processing, legal and investment services from the State. The space and services are not otherwise available by competitive bid. The schedule below summarizes costs incurred by the System for such services.

Cash - At September 30, 2014, the System had \$246.7 million in a common cash investment pool maintained for various State operating funds. The participating funds in the common cash pool earn interest at various rates depending upon prevailing short-term interest rates. Earnings from these activities amounted to (\$0.6) thousand for the year ended September 30, 2014.

Contributions and Funding Status

The majority of the members currently participate on a contributory basis, as described above under "Benefits Provided." Reporting units are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of members and retiree Other Post-Employment Benefits (OPEB). Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. For retirement and OPEB benefits, the unfunded(overfunded) actuarial accrued liability as of the September 30, 2014 valuation will be amortized over a 22 year period for the 2014 fiscal year. The schedule below summarizes pension contribution rates in effect for fiscal year 2014.

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 10. RETIREMENT PLAN (Continued):

Pension Contribution Rates		
Benefit Structure	Member	Employer
Basic	0.0 - 4.0 %	18.34 - 19.61 %
Member Investment Plan	3.0 - 7.0	18.34 - 19.61
Pension Plus	3.0 - 6.4	18.11
Defined Contribution	0.0	15.44 - 16.61

The System may reconcile with actuarial requirements annually. If the system reconciles in a year, any funding excess or deficiency for pension benefits is smoothed over a maximum of 5 years, with at least one-fifth (20%) of the funding excess or deficiency included in the subsequent year's contribution. This payment is not recognized as a payable or receivable in the accounting records. If the System does not reconcile in a year, any funding excess or deficiency for pension benefits is accounted for in subsequent required contributions over the remaining amortization period. For fiscal year 2014, the System did not reconcile.

In May 1996, the Internal Revenue Service issued a private letter ruling allowing the System's members to purchase service credit and repay refunds using tax-deferred (pre-tax) dollars. The program was implemented in fiscal year 1998, and payments began in fiscal year 1999.

The program allows members to purchase service credit and repay refunds on a tax-deferred basis. Members sign an irrevocable agreement that identifies the contract duration, monthly payment, total contract amount and years of service credit being purchased. The duration of the contract can range from 1 to 20 years. The amounts are withheld from members' paychecks and are treated as employer pick-up contributions pursuant to Internal Revenue Code Section 414(h).

At September 30, 2014, there were 16,503 agreements. The agreements were discounted using the assumed actuarial rate of return of 8% for September 30, 2014. The average remaining length of a contract was approximately 6.0 years for 2014. The short-term receivable was \$29.7 million and the discounted long-term receivable was \$83.6 million at September 30, 2014.

NOTE 11. NET PENSION LIABILITY – NON-UNIVERSITY:

Measurement of the MPSERS Net Pension Liability

The plan's net pension liability is to be measured as the total pension liability, less the amount of the pension plan's fiduciary net position. In actuarial terms, this will be the accrued liability less the market value of assets (not the smoothed actuarial value of assets that is often encountered in actuarial valuations performed to determine the employer's contribution requirement).

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 11. NET PENSION LIABILITY – NON-UNIVERSITY (Continued):

**MPSERS (Plan) Net Pension Liability—Non-University
As of September 30, 2014**

Total Pension Liability	\$ 65,160,887,182
Plan Fiduciary Net Position	\$ <u>43,134,384,072</u>
Net Pension Liability	\$ <u>22,026,503,110</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	66.20%
Net Pension Liability as a Percentage of Covered-Employee Payroll	250.11%

Year 1 MPSERS GASB 68 implementation recognizes a 0.00% change in the reporting unit's proportionate share between beginning net pension liability and ending net pension liability.

**MPSERS (Plan) Net Pension Liability—Non-University
As of October 1, 2013**

Total Pension Liability	\$ 62,859,499,994
Plan Fiduciary Net Position	\$ <u>39,427,686,072</u>
Net Pension Liability	\$ <u>23,431,813,922</u>

Proportionate Share of Reporting Unit's Net Pension Liability

At September 30, 2014, the School District reported a liability of \$5,904,367 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2013. The Reporting Unit's proportionate share of the net pension liability was based on statutorily required contributions in relation to all reporting units' statutorily required contributions for the measurement period. At September 30, 2014, the Reporting Unit's proportionate share percent was 0.02681 percent.

Long-Term Expected Return on Plan Assets

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

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 11. NET PENSION LIABILITY – NON-UNIVERSITY (Continued):

asset class included in the pension plan's target asset allocation as of September 30, 2014, are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	28.0 %	4.8 %
% Alternative Investment Pools	18.0	8.5
International Equity	16.0	6.1
Fixed Income Pools	10.5	1.5
Real Estate and Infrastructure Pools	10.0	5.3
Absolute Return Pools	15.5	6.3
Short Term Investment Pools	2.0	(0.2)
TOTAL	100.0 %	

*Long term rate of return does not include 2.5% inflation

Rate of Return

For the fiscal year ended September 30, 2014, the annual money-weighted rate of return on pension plan investment, net of pension plan investment expense, was 12.58%. The money weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

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

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 11. NET PENSION LIABILITY – NON-UNIVERSITY (Continued):

expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

As required by GASB Statement No. 68, the following presents the reporting unit's proportionate share of the net pension liability, calculated using a discount rate of 8.0% (7.0% for the 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:

1% Decrease (Non-Hybrid/Hybrid)* 7.0% / 6.0%	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid)* 8.0% / 7.0%	1% Increase (Non-Hybrid/Hybrid)* 9.0% / 8.0%
\$ 7,784,394	\$ 5,904,367	\$ 4,320,417

Timing of the Valuation

An actuarial valuation to determine the total pension liability is required to be performed every year. If the actuarial valuation is not calculated as of the plan's fiscal year end, the total pension liability is required to be rolled forward from the actuarial valuation date to the pension plan's fiscal year end.

The total pension liability as of September 30, 2014, is based on the results of an actuarial valuation date of September 30, 2013, and rolled forward using generally accepted actuarial procedures.

Actuarial Valuations and Assumptions

Actuarial valuations for the pension plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions (ARC) are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 11. NET PENSION LIABILITY – NON-UNIVERSITY (Continued):

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions

Actuarial Assumptions

Wage Inflation Rate:	3.5%
Investment Rate of Return	
MIP and Basic Plans (Non-Hybrid):	8.0%
Pension Plus Plan (Hybrid):	7.0%
Projected Salary Increases:	3.5 - 12.3%, including wage inflation at 3.5%
Cost-of-Living Pension Adjustments:	3% Annual Non-Compounded for MIP Members
Healthcare Cost Trend Rate:	8.5% Year 1 graded to 3.5% Year 12

Mortality: RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

Notes:

- Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2014, is based on the results of an actuarial valuation date of September 30, 2013, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 4.8457
- Recognition period for assets in years is 5.0000
- Full actuarial assumptions are available in the 2014 MPSERS Comprehensive Annual Financial Report.

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 12. PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS:

For the year ended June 30, 2015, the Reporting Unit recognized total pension expense of \$478,270. At June 30, 2015, 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
Differences between expected and actual experience	\$ 0	\$ 0
Changes of assumptions	217,859	0
Net difference between projected and actual earnings on pension plan investments	0	652,730
Changes in proportion and differences between Reporting Unit contributions and proportionate share of contributions	171	0
Reporting Unit contributions subsequent to the measurement date*	384,083	0
Total	\$ 602,113	\$ 652,730

*This amount, reported as deferred outflows of resources related to pensions resulting from Reporting Unit contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Each reporting unit will provide this information.

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

Deferred (Inflows) and Deferred Outflows of Resources by Year (to Be Recognized in Future Pension Expenses)	
Plan Year Ended September 30	Amount:
2015	(106,489)
2016	(106,489)
2017	(106,489)
2018	(115,233)

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 13. PRIOR PERIOD ADJUSTMENTS

The adoption of GASB 68 the District is required to recognize its share of the net pension liability resulting in making a prior period adjustment. The prior period adjustment of \$5,954,984 is the District's beginning net pension liability for fiscal year ended June 30, 2015 adjusted by deferred outflows of resources and deferred inflows of resources. The adjustment and liability only applies to the government wide financial statements restating the beginning net assets amount to \$ (3,084,635).

In the fiscal year ended June 30, 2014 the District incorrectly reported the net unamortized cost of issuing the 2005 refunding bonds. GASB 65 states that bond issuance costs are to be expensed in the period incurred. The net amount of \$182,446 was recorded as a prior period adjustment to the government wide financial statements restating the beginning net asset amount to \$2,847,456.

NOTE 13. SUBSEQUENT EVENTS

Management has evaluated subsequent events and transactions for potential recognition and disclosure through October 18, 2015, the date the financial statements were available to be issued. No significant events or transactions were identified

REQUIRED SUPPLEMENTAL INFORMATION

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

BUDGET COMPARISON SCHEDULE - GENERAL FUND
Year Ended June 30, 2015

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>
REVENUES:			
Local Sources	\$ 1,894,052	\$ 2,044,631	\$ 2,042,247
State Sources	2,218,693	2,289,001	2,294,691
Federal Sources	161,184	192,959	191,959
Interdistrict and other sources	<u>123,000</u>	<u>153,573</u>	<u>153,574</u>
Total Revenues	4,396,929	4,680,164	4,682,471
EXPENDITURES:			
Instruction-			
Basic Programs	2,237,667	2,424,227	2,398,573
Added Needs	518,419	541,110	539,876
Supporting Services -			
Pupil	55,820	55,820	55,596
Instructional Staff	4,000	3,800	2,863
General Administration	87,223	142,082	121,765
School Administration	385,393	352,366	347,207
Business Services	163,559	148,186	140,669
Operation & Maintenance	579,798	599,697	562,773
Transportation	375,152	400,238	379,176
Support Services - Central	108,887	128,474	119,225
Support Services - Other	111,038	111,038	110,222
Community Services -			
Community Activities	<u>500</u>	<u>1,000</u>	<u>0</u>
Total Expenditures	4,627,456	4,908,038	4,777,945
OTHER FINANCING SOURCES (USES)			
Operating transfers out	(50,000)	(50,000)	(48,272)
Indirect costs	0	0	0
Indirect costs recovery	23,000	23,000	23,000
Sale of assets	0	5,473	5,473
Redemption of school bus loans	(15,365)	(15,365)	(15,365)
Interest on school bus loans	<u>(1,358)</u>	<u>(1,358)</u>	<u>(1,357)</u>
Net Other Financing Sources (Uses)	(43,723)	(38,250)	(36,520)
NET CHANGE IN FUND BALANCE	(274,250)	(266,124)	(131,994)
Prior Year Adjustment - State Aid	0	0	0
FUND BALANCE - BEGINNING OF YEAR	<u>523,564</u>	<u>789,688</u>	<u>789,688</u>
FUND BALANCE - END OF YEAR	<u>\$ 249,314</u>	<u>\$ 523,564</u>	<u>\$ 657,694</u>

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan
BUDGET COMPARISON SCHEDULE - FOOD SERVICE FUND
Year Ended June 30, 2015

	Original Budget	Final Amended Budget	Actual
REVENUES:			
Local Sources	\$ 61,040	\$ 67,621	\$ 69,238
State Sources	14,810	14,919	14,857
Federal Sources	<u>200,399</u>	<u>197,030</u>	<u>196,938</u>
Total Revenues	276,249	279,570	281,033
EXPENDITURES:			
Supporting Services - Food Service	303,535	310,982	305,476
OTHER FINANCING SOURCES (USES):			
Indirect Costs	23,000	(23,000)	(23,000)
Operating Transfer In	<u>50,000</u>	<u>50,000</u>	<u>48,272</u>
Net Other Financing Sources (Uses)	<u>73,000</u>	<u>27,000</u>	<u>25,272</u>
NET CHANGE IN FUND BALANCE	45,714	(4,412)	829
FUND BALANCE - BEGINNING OF YEAR	<u>0</u>	<u>10,970</u>	<u>10,970</u>
FUND BALANCE - END OF YEAR	<u>\$ 45,714</u>	<u>\$ 6,558</u>	<u>\$ 11,799</u>

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

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)

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
A. Reporting unit's proportion of net pension liability (%)										0.02681%
B. Reporting unit's proportionate share of net pension liability										5,904,367
C. Reporting unit's covered-employee payroll										2,282,458
D. Reporting unit's proportionate share of net pension liability as a percentage of its covered-employee payroll										38.66%
E. Plan fiduciary net position as a percentage of total pension liability										66.20%

* This schedule is to be built prospectively. Until a full 10-year trend is compiled, the schedule will show information for those years for which data is available, beginning with fiscal year ending June 30, 2015

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

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

	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
A. Statutorily required contributions	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$ 431,600
B. Contributions in relation to statutorily required contributions										431,600
C. Contribution deficiency (excess)	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$ -
D. Reporting unit's covered-employee payroll	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$ 2,316,044
E. Contributions as a percentage of covered-employee payroll										18.64%

* This schedule is to be built prospectively. Until a full 10-year trend is compiled, the schedule will show information for those years for which data is available, beginning with fiscal year ending June 30, 2015

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2015

- Changes of benefit terms:** There were no changes of benefit terms in 2013.
- Changes of assumptions:** There were no changes of benefit assumptions in 2013.

OTHER SUPPLEMENTAL INFORMATION

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
Years Ended June 30, 2015 and 2014

REVENUES:	2015	2014
Local Sources -		
Current tax levy	\$ 1,844,353	\$ 1,923,445
Other taxes	0	42,131
Revenue in lieu of taxes	5,571	0
Interest on delinquent taxes	10,466	21,546
Gate receipts	23,189	27,367
Participation fees	18,452	19,445
Transportion fees	11,064	3,387
Interest on investments	3,164	3,841
Rentals	9,400	7,200
Royalties	2,152	3,074
Local grants and donations	80,557	46,442
Other	33,879	21,743
Total Local Sources	2,042,247	2,119,621
State Sources -		
State Foundation Grant	1,760,102	1,546,564
Isolated Districts	22,214	22,007
Best Financial Practices	25,817	27,756
Performance Based Funding	14,952	20,215
MPSERS 147a	31,820	31,625
MPSERS 147c	201,077	117,011
Court Placed Children	0	0
Special Education	76,528	108,380
At Risk - Section 31a	134,514	142,811
G.S.R.P.	0	0
Headlee Data Collection	12,480	12,521
First Robotics	9,416	7,884
Technology infastructure	4,032	4,901
Principal Educator Evaluation	0	0
Trig Stipend	0	2,700
Other	1,740	0
Total State Sources	2,294,691	2,044,375
Federal Sources -		
Title 1	128,595	129,031
Title II A	41,234	39,009
Small Rural Schools	20,991	19,894
Medicaid Outreach	1,139	977
Total Federal Sources	191,959	188,911

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE (CONTINUED)
Years Ended June 30, 2015 and 2014

REVENUES (Continued):	<u>2015</u>	<u>2014</u>
Interdistrict and Other Sources		
Transfers from other governmental units:		
Special Education	\$ 128,678	\$ 130,389
Medicaid Fee for Service	24,896	23,777
Great Start Readiness Program	<u>0</u>	<u>0</u>
Total Interdistrict and Other Sources	<u>153,574</u>	<u>154,166</u>
Total Revenues	4,682,471	4,507,073
EXPENDITURES:		
Instruction	2,938,449	2,915,811
Supporting Services	1,839,496	1,662,281
Community Services	<u>0</u>	<u>393</u>
Total Expenditures	4,777,945	4,578,485
OTHER FINANCING SOURCES (USES):		
Operating transfers out	(48,272)	(26,849)
Sale of assets	5,473	1,877
Redemption of school bus loans	(15,365)	(14,635)
Indirect costs	0	0
Indirect cost recovery	23,000	22,964
Interest on school bus loans	<u>(1,357)</u>	<u>(2,086)</u>
Net Other Financing Sources (Uses)	<u>(36,520)</u>	<u>(18,729)</u>
NET CHANGE IN FUND BALANCE	(131,994)	(90,141)
FUND BALANCE - BEGINNING OF YEAR	789,688	887,198
Prior Year Adjustment - State Aid	<u>0</u>	<u>(7,369)</u>
FUND BALANCE - END OF YEAR	<u>\$ 657,694</u>	<u>\$ 789,688</u>

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

GENERAL FUND
DETAIL OF EXPENDITURES
Years Ended June 30, 2015 and 2014

INSTRUCTION:	Salaries	Employee Benefits	Purchased Services	Supplies and Other Costs	Other Expenses	Capital Outlay	Totals	
							2015	2014
Basic Programs -								
Elementary	\$ 645,542	\$ 458,957	\$ 20,595	\$ 19,767	\$ 1,068	\$ 4,936	\$ 1,150,865	\$ 1,239,162
Secondary	623,146	418,162	72,678	100,745	13,690	19,288	1,247,709	1,140,100
Pre School	0	0	0	0	0	0	0	0
Total Basic Programs	1,268,688	877,119	93,273	120,512	14,757	24,223	2,398,573	2,379,262
Added Needs -								
Special Education	177,582	114,633	1,930	1,102	0	0	295,248	281,910
Compensatory Education	146,220	98,128	117	163	0	0	244,628	254,639
Total Added Needs	323,802	212,761	2,047	1,265	0	0	539,876	536,549
Total Instruction	1,592,490	1,089,880	95,320	121,778	14,757	24,223	2,938,449	2,915,811
SUPPORTING SERVICES:								
Pupil -								
Guidance Services	0	0	54,320	1,276	0	0	55,596	55,172
Instructional Staff Services -								
Improvement of Instruction	0	0	0	952	0	0	952	1,916
Instructional Related Technology	0	0	0	0	0	0	0	0
Supervision and Direction	0	0	0	0	0	0	0	0
Academic Student Assessment	0	0	0	1,912	0	0	1,912	1,548
Total Instructional Staff	0	0	0	2,863	0	0	2,863	3,464

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

GENERAL FUND
DETAIL OF EXPENDITURES (CONTINUED)
Years Ended June 30, 2015 and 2014

SUPPORTING SERVICE (CONTINUED):	Salaries	Employee Benefits	Purchased Services	Supplies and Other Costs	Other Expenses	Capital Outlay	Totals	
							2015	2014
General Administration Services -								
Board of Education	\$ 1,521	\$ 136	\$ 47,365	\$ 0	\$ 4,501	\$ 0	\$ 53,524	\$ 23,804
Executive Administration	31,090	24,902	7,280	0	4,970	0	68,241	65,493
Total General Administrative Services	32,611	25,038	54,644	0	9,471	0	121,765	89,297
School Administrative Services -								
Office of the Principal	204,333	138,973	2,122	1,779	0	0	347,207	286,423
Business Services -								
Fiscal Services	61,786	44,133	483	1,249	1,035	0	108,685	104,654
Other Business Services	0	0	24,766	0	7,218	0	31,984	26,391
Total Business Services	61,786	44,133	25,249	1,249	8,252	0	140,669	131,045
Operations and Maintenance -								
Operations of Buildings Services	161,990	116,604	99,735	165,744	319	16,941	561,332	535,843
Security Services	0	0	1,441	0	0	0	1,441	1,373
Total Operations and Maintenance	161,990	116,604	101,176	165,744	319	16,941	562,773	537,216
Pupil Transportation Services -								
Pupil Transportation Services	167,745	95,213	7,639	52,482	3,883	52,213	379,176	334,216
Support Services - Central -								
Staff/Personnel Services	17,238	13,537	0	0	0	0	30,775	31,245
Non Instructional Technology	44,475	0	0	43,974	0	0	88,449	94,994
Total Support Services - Central	61,713	13,537	0	43,974	0	0	119,225	126,239
Support Services - Other -								
Athletics	11,941	5,420	72,546	16,254	2,760	1,301	110,222	99,209
Total Supporting Services	702,119	438,919	317,697	285,621	24,685	70,455	1,839,496	1,662,281
COMMUNITY SERVICES:								
Community Activities	0	0	0	0	0	0	0	393
Total Expenditures	\$ 2,294,609	\$ 1,528,799	\$ 413,017	\$ 407,399	\$ 39,443	\$ 94,678	\$ 4,777,945	\$ 4,578,485

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

FOOD SERVICE FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
Years Ended June 30, 2015 and 2014

REVENUES:	Years Ended June 30,	
	2015	2014
Local Sources -		
Cafeteria sales	\$ 48,736	\$ 47,428
Milk machine	2,495	2,829
Earnings on investments	39	46
Headstart sales	5,995	5,178
GSRP lunches	9,417	8,981
Other	2,556	1,525
Total Local Sources	69,238	65,987
State Sources -		
Section 31a At Risk	2,330	2,810
Section 31d School Lunch	12,527	12,800
Total State Sources	14,857	15,610
Federal Sources -		
National School Lunch Program	129,612	136,988
National School Breakfast Program	51,020	50,396
Donated commodities - Entitlement	16,306	18,478
Total Federal Sources	196,938	205,862
Total Revenues	281,033	287,459
EXPENDITURES:		
Supporting Services -		
Food Service -		
Salaries and wages	88,657	87,127
Employee benefits	61,767	60,915
Purchased services	6,635	4,156
Food and milk	113,115	113,503
USDA Delivery charge	27,723	26,367
Sales tax	1,043	892
Supplies and other costs	6,536	6,660
Total Expenditures	305,476	299,620
OTHER FINANCING SOURCES (Uses):		
Operating Transfers in	48,272	26,849
Indirect costs	(23,000)	(22,964)
Total Other Financing Sources (Uses)	25,272	3,885
NET CHANGE IN FUND BALANCES	829	(8,276)
FUND BALANCE - BEGINNING OF YEAR	10,970	19,246
FUND BALANCE - END OF YEAR	\$ 11,799	\$ 10,970

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

2005 DEBT RETIREMENT FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
Years Ended June 30, 2015 and 2014

REVENUES:	2015	2014
Local Sources -		
Current tax levy	\$ 572,056	\$ 567,566
Other taxes	0	8,597
Interest on delinquent taxes	3,468	6,309
Earnings on investments	<u>1,098</u>	<u>1,204</u>
Total Local Sources	576,622	583,676
State Sources -		
Payment in lieu of taxes	<u>16,697</u>	<u>15,741</u>
Total Revenues	593,319	599,417
EXPENDITURES:		
Debt Service -		
Bond principal	465,000	395,000
Interest on bonded debt	156,792	200,611
Paying agent fees	300	263
Taxes paid back	<u>383</u>	<u>73</u>
Total Expenditures	<u>622,475</u>	<u>595,947</u>
NET CHANGE IN FUND BALANCES	(29,156)	3,470
FUND BALANCE - BEGINNING OF YEAR	<u>93,727</u>	<u>90,257</u>
FUND BALANCE - END OF YEAR	<u>\$ 64,571</u>	<u>\$ 93,727</u>

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

FIDUCIARY FUND
STATEMENT OF DUE TO SCHOOL ORGANIZATIONS
Years Ended June 30, 2015 and 2014

	2015	2014
ELEMENTARY -		
Fines	\$ 440	\$ 567
General Purpose	2,534	9
Library	1,358	251
MiBLSi	26	26
Physical Education	126	21
Playground	80	80
School Spirit Store	618	618
Student Improvement	(560)	532
Total Elementary	4,622	2,104
HIGH SCHOOL -		
Athletics	510	0
Class of 2013	0	21
Class of 2014	51	424
Class of 2015	262	2,483
Class of 2016	6,849	7,347
Class of 2017	5,178	3,470
Class of 2018	3,088	2,270
Class of 2019	1,105	1,104
Class of 2020	671	0
Band	1,494	2,066
Baseball	981	3,152
Basketball JH	26	0
Basketball - Girls	4,775	3,302
Basketball - Boys	183	914
Broadcasting	1,216	442
Cheerleading	659	173
Corn Maze	188	177
Drama	210	418
Fines & Supplies	156	28
Football	1,461	461

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

FIDUCIARY FUND
STATEMENT OF DUE TO SCHOOL ORGANIZATIONS (CONTINUED)
Years Ended June 30, 2015 and 2014

	2015	2014
HIGH SCHOOL (Continued) -		
Golf	\$ 0	\$ 263
Hall of Fame	462	550
Honor Society	286	672
Library	345	431
News Writing	23	23
No Detention	0	5
Physics	398	589
Pizza Club	273	243
Rentals	864	869
Revolving Account	181	180
Robotics	19	190
Scholarship	1,000	18,500
Scholarship	8,500	7,000
Shop	4,384	3,514
Softball	826	555
Spanish	176	309
Special Ed	1,339	1,198
Student	0	109
Student Council	1,260	970
Student Improvement	2,314	2,134
Track	866	600
Track - Junior High	128	101
Volleyball	717	1,349
Youth Community Service	0	689
Yearbook	5,981	6,135
Total High School	64,027	75,430
	\$ 68,649	\$ 77,534

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

DETAIL OF BONDED DEBT
2015 REFUNDING BONDS
June 30, 2015

Purpose of issue -
2015 Refunding Bonds
Amount of issue: \$ 3,955,000
Interest rate - 2.000%
Date of issue - February 10, 2015

Date	May, 1		November, 1	
	Principal	Interest	Interest	Total
2015	\$	\$	\$ 59,251	\$ 59,251
2016	450,000	40,863	36,363	527,225
2017	475,000	36,363	31,613	542,975
2018	485,000	31,613	26,763	543,375
2019	490,000	26,763	21,863	538,625
2020	500,000	21,863	16,863	538,725
2021	510,000	16,863	11,763	538,625
2022	520,000	11,763	6,563	538,325
2023	525,000	6,563	0	531,563
	<u>\$ 3,955,000</u>	<u>\$ 192,650</u>	<u>\$ 211,038</u>	<u>\$ 4,358,688</u>

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

DETAIL OF BUS NOTE PAYABLE
June 30, 2015

Security: 2010 77 passenger bus
Date of Loan: Novemebr 12, 2010
Interest Rate: 4.70%

Date	Payment	Principal	Interest
November 1, 2015	\$ <u>16,094</u>	\$ <u>15,663</u>	\$ <u>431</u>
	\$ <u>16,094</u>	\$ <u>15,663</u>	\$ <u>431</u>

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

Board of Education
Hillman Community Schools
Alpena, Montmorency and Presque Isle Counties
Hillman, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hillman Community Schools', as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise Hillman Community Schools' basic financial statements, and have issued our report thereon dated October 18, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Hillman 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 Hillman 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 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.

Board of Education
Hillman Community Schools

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hillman 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.

QUAST, JANKE & CO.



Certified Public Accountants, P.C.
Bay City, Michigan 48708
October 18, 2015