



HILLMAN COMMUNITY SCHOOLS

Alpena, Montmorency and Presque Isle
Counties, Michigan

FINANCIAL REPORT
WITH SUPPLEMENTAL INFORMATION
June 30, 2016

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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 year ended June 30, 2016 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, 2016 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of pension contribution, the schedule of district share of pension liability 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.

Prior year information

The financial statements contain summarized total information as of and for the year ended June 30, 2015. The prior year information was obtained from the audited financial statements for the prior year and is consistent, in all material respects, with the audited financial statements from which it was derived.

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 Schedules of Revenues and Expenditures and the Indebtedness Schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

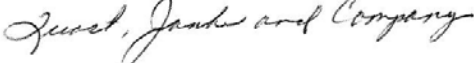
The Schedules of Revenues and Expenditures and Indebtedness Schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2016 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

A handwritten signature in cursive script that reads "Quast, Janke and Company".

Certified Public Accountants, P.C.
Bay City, Michigan 48708
September 29, 2016

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016

This section of Hillman Community Schools' annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2016. 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 funds – the General Fund, the Food Service Fund, and the 2005 Debt Retirement Fund. The remaining statement, the statement of fiduciary assets and liabilities, 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 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.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016

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.

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.

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Alpena, Montmorency and Presque Isle Counties, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016

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, 2016 and 2015.

TABLE 1:

	Governmental Activities	
	June 30, 2016	June 30, 2015
Assets		
Current and other assets	\$ 1,214,849	\$ 1,205,764
Capital assets – Net of accumulated depreciation	6,126,472	6,362,361
Total Assets	7,341,321	7,568,125
Deferred Outflows of Resources	898,782	602,113
Liabilities		
Current liabilities	1,013,891	1,043,329
Long-term liabilities	9,843,404	9,409,367
Total Liabilities	10,857,295	10,452,696
Deferred Inflows of Resources	22,278	652,730
Net Position		
Invested in property and equipment – Net of related debt	2,621,472	2,391,698
Restricted	99,816	76,370
Unrestricted	(5,360,758)	(5,401,004)
Total Net Position	\$ (2,639,470)	\$ (2,932,936)

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 \$ (2,639,470) at June 30, 2016. Investment in 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, \$ (5,360,758) was unrestricted.

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Alpena, Montmorency and Presque Isle Counties, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016

The \$ (5,360,758) 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, 2016 and 2015.

TABLE 2:

	Governmental Activities	
	2016	2015
Program revenue:		
Charges for services	\$ 144,783	\$ 146,839
Grants and catagoricals	1,209,409	1,084,596
General revenue:		
Property taxes	2,419,221	2,437,012
State PILT	18,202	16,697
State unrestricted aid	1,618,980	1,823,085
Investment earnings	3,774	14,716
Other	77,491	39,352
 Total revenue	 5,491,860	 5,562,296
Function/Program Expenses		
Instruction	2,670,601	2,909,442
Support service	1,846,764	1,880,128
Community service	2,663	0
Food service	291,834	308,452
Interest on long-term debt	87,227	84,525
Depreciation (unallocated)	299,305	228,050
 Total expences	 5,198,394	 5,410,597
 Increase (Decrease) in Net Position	 \$ <u>293,466</u>	 \$ <u>151,699</u>

As reported in the statement of activities, the cost of all of our governmental activities this year was \$ 5,198,394. 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

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MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016

activities with \$ 2,419,221 in taxes, \$ 1,718,447 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 \$ 293,466. 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 16.

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 \$ 678,988, which is a decrease of \$ 55,076 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 \$ 78,522 to \$ 579,172. Overall, actual General Fund revenue and expenses were within 99.64 and 97.47 percent of budgeted amounts, respectively.

The 2005 Debt Retirement Fund fund balance increased by \$ 25,216.
The Food Service Fund Balance decreased by \$ 1,770.

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.

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Alpena, Montmorency and Presque Isle Counties, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016

Capital Asset and Debt Administration

Capital Assets

At June 30, 2016, the School District had \$ 13,278,691 invested in a broad range of capital assets, including land, buildings, vehicles, and equipment. This amount represents a net decrease (including depreciation and additions) of \$ 235,889.

	2016	2015
Land and improvements	\$ 592,184	\$ 592,185
Buildings and improvements	9,841,524	9,829,091
Buses and Other Vehicles	579,960	572,836
Equipment	2,264,529	2,220,669
Total capital assets	13,278,197	13,214,781
Less accumulated depreciation	7,151,725	6,852,420
Net capital assets	\$ 6,126,472	\$ 6,362,361

This year's additions of \$ 63,416 consisted of a water heater and shop equipment.

Debt

At the end of this year, the School District had \$ 3,030,000 in bonds outstanding versus \$ 3,970,663 in the previous year. These bonds consisted of the following:

2015 Refunding Bonds	\$ 3,505,000
Bus Notes	0
	\$ 3,505,000

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 \$ 3,505,000 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, 2016

Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration consider many factors when setting the School District's 2017 fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2017 fiscal year is 90 percent and 10 percent of the September 2016 and February 2017 student counts, respectively. The 2017 fiscal year budget was adopted in June 2016, based on an estimate of students that will be enrolled in September of 2016. 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 2016-2017 school year, we anticipate that the fall student count will be slightly less than the estimates used in creating the 2017 fiscal year budget. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget if actual District resources are not sufficient to fund original appropriations.

Since the School District's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts. The State periodically holds a revenue-estimating conference to estimate revenues. Based on the results of the most recent conference, the State estimates a \$ 120 per pupil 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, 2016 and 2015

	June 30,	
	2016	2015
ASSETS:		
Cash & equivalents	\$ 764,365	\$ 736,891
Accounts receivable	4,469	800
Taxes receivable	0	9
Due from other governmental units	428,604	459,429
Prepaid items	10,888	5,841
Inventories	6,523	5,045
Capital assets	13,278,197	13,214,781
Accumulated depreciation	(7,151,725)	(6,852,420)
Total Assets	7,341,321	7,570,377
DEFERRED OUTFLOWS OF RESOURCES:		
Related to pensions	898,782	602,113
LIABILITIES:		
Accounts payable	59,677	48,721
Accrued payroll and other liabilities	476,184	425,230
Accrued interest	3,030	17,226
Compensated absences	87,628	86,489
Net pension liability	6,725,776	5,904,367
Current portion of long term liabilities	475,000	465,663
Non current portion of long term liabilities	3,030,000	3,505,000
Total Liabilities	10,857,295	10,452,696
DEFERRED INFLOWS OF RESOURCES:		
Related to pensions	22,278	652,730
NET POSITION:		
Investment in capital assets - net of related debt	2,621,472	2,391,698
Restricted for debt service	89,787	64,571
Restricted for food service	10,029	11,799
Unrestricted (deficit)	(5,360,758)	(5,401,004)
Total Net Position (deficit)	\$ (2,639,470)	\$ (2,932,936)

See Notes to Financial Statements

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

STATEMENT OF ACTIVITIES
Year Ended June 30, 2016 with comparative totals for 2015

	Program Revenues				Governmental Activities	
	Expenses	Charges for Services	Operating Grants/ Contributions	Capital Grants/ Contributions	Net (Expenses) Revenues And Changes in Net Position 2016	2015
GOVERNMENTAL ACTIVITIES:						
Instruction	\$ 2,670,601	\$ 29,152	\$ 560,258	\$ 0	\$ (2,081,191)	\$ (2,357,870)
Supporting services	1,846,764	49,618	425,100	0	(1,372,046)	(1,481,298)
Community services	2,663	0	0	0	(2,663)	0
Food services	291,834	66,013	224,051	0	(1,770)	(27,419)
Interest on long term debt	87,227	0	0	0	(87,227)	(84,525)
Depreciation (unallocated)	<u>299,305</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(299,305)</u>	<u>(228,050)</u>
Total Governmental Activities	<u>\$ 5,198,394</u>	<u>\$ 144,783</u>	<u>\$ 1,209,409</u>	<u>\$ 0</u>	(3,844,202)	(4,179,162)
GENERAL PURPOSE REVENUES:						
Property taxes, levied for operating purposes					1,860,792	1,860,390
Property taxes, levied for debt retirement					558,429	576,622
State school aid - unrestricted					1,618,980	1,823,085
State PILT					18,202	16,697
Investment earnings					3,774	14,716
Other					<u>77,491</u>	<u>39,352</u>
Total General Purpose Revenues					<u>4,137,668</u>	<u>4,330,861</u>
Change in net position					293,466	151,699
Net Position (deficit) - Beginning of Year, as Reported					(2,932,936)	2,870,349
Prior Period Adjustment - GASB 68					0	(5,954,984)
Net Position (deficit) - Beginning of Year, as Adjusted					<u>(2,932,936)</u>	<u>(3,084,635)</u>
Net Position (deficit) - End of Year					<u>\$ (2,639,470)</u>	<u>\$ (2,932,936)</u>

See Notes to Financial Statements

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

GOVERNMENTAL FUNDS BALANCE SHEET
June 30, 2016 and Comparative Totals at June 30, 2015

ASSETS				Totals June 30	
	GENERAL	NONMAJOR FOOD SERVICE	MAJOR 2005 DEBT RETIREMENT	2016	2015
Cash	\$ 664,571	\$ 10,007	\$ 89,787	\$ 764,365	\$ 736,891
Taxes receivable	0	0	0	0	9
Accounts receivable	4,469	0	0	4,469	800
Grants receivable	12,644	0	0	12,644	43,517
Due from State of Michigan	413,645	2,315	0	415,960	415,912
Due from ESD	0	0	0	0	0
Prepaid items	10,888	0	0	10,888	5,841
Inventory	0	6,523	0	6,523	5,045
	\$ 1,106,217	\$ 18,845	\$ 89,787	\$ 1,214,849	\$ 1,208,015
LIABILITIES AND FUND EQUITY					
LIABILITIES:					
Accounts payable	\$ 59,677	\$ 0	\$ 0	\$ 59,677	\$ 48,721
Salaries payable	309,402	4,868	0	314,270	271,178
Retirement	80,871	1,770	0	82,641	91,121
Payroll taxes	21,635	0	0	21,635	18,897
Employee benefits	29,768	1,460	0	31,228	33,828
Unearned revenue	25,692	718	0	26,410	10,205
	527,045	8,816	0	535,861	473,950
FUND BALANCES:					
Nonspendable	10,888	6,523	0	17,411	5,045
Restricted	0	3,506	89,787	93,293	71,326
Assigned	0	0	0	0	0
Committed for roof repair	10,000	0	0	10,000	0
Unassigned	558,284	0	0	558,284	391,570
	579,172	10,029	89,787	678,988	734,065
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 1,106,217	\$ 18,845	\$ 89,787	\$ 1,214,849	\$ 1,208,015

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, 2016

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$	678,988
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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		13,278,197
Accumulated depreciation		(7,151,725)

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

Bonds payable		(3,505,000)
Compensated balances		(87,628)
Net pension liability		(6,725,776)

Deferred inflows of resources related to pensions		(22,278)
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Deferred outflows of resources related to pensions		898,782
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Accrued interest payable not included as a liability in governmental activities		(3,030)
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Rounding		0
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TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES	\$	<u><u>(2,639,470)</u></u>
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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, 2016 and Comparative Totals at June 30, 2015

	GENERAL	NONMAJOR FOOD SERVICE	MAJOR 2005 DEBT RETIREMENT	TOTALS JUNE 30,	
				2016	2015
REVENUES:					
Local sources	\$ 2,059,334	\$ 66,013	\$ 557,724	\$ 2,683,071	\$ 2,688,107
State sources	2,200,705	15,035	18,105	2,233,845	2,326,245
Federal sources	194,492	209,016	0	403,508	388,897
Interdistrict and other sources	171,436	0	0	171,436	153,575
Total Revenues	4,625,967	290,064	575,829	5,491,860	5,556,824
EXPENDITURES:					
Instruction	2,761,536	0	0	2,761,536	2,938,449
Supporting services	1,923,817	0	0	1,923,817	1,839,496
Community services	2,663	0	0	2,663	0
Food service	0	291,834	0	291,834	305,476
Debt service -					
Principal repayment	0	0	450,000	450,000	465,000
Interest and fiscal charges	0	0	100,613	100,613	157,475
Total Expenditures	4,688,016	291,834	550,613	5,530,463	5,705,896
OTHER FINANCING SOURCES (USES):					
Operating transfer in	0	21,864	0	21,864	48,272
Operating transfer (out)	(21,864)	0	0	(21,864)	(48,272)
Sale of assets	0	0	0	0	5,473
Indirect costs	0	(21,864)	0	(21,864)	(23,000)
Indirect cost recovery	21,864	0	0	21,864	23,000
Redemption of school bus loans	(15,663)	0	0	(15,663)	(15,365)
Interest on school bus loans	(810)	0	0	(810)	(1,357)
Net other financing sources (uses)	(16,473)	0	0	(16,473)	(11,249)
NET CHANGE IN FUND BALANCES	(78,522)	(1,770)	25,216	(55,076)	(160,321)
Prior period adjustment - state aid	0	0	0	0	0
FUND BALANCE - BEGINNING OF YEAR	657,694	11,799	64,571	734,064	894,385
FUND BALANCE - END OF YEAR	\$ 579,172	\$ 10,029	\$ 89,787	\$ 678,988	\$ 734,064

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, 2016

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ (55,076)

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	(299,305)	
Capital outlay	<u>63,416</u>	
Net		(235,889)

Accrued interest recorded in the statement of activities when incurred and reported in governmental funds when paid	14,196
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Bond principal repayment reported as an expenditure in governmental funds and as a reduction of long term debt in the statement of activities	450,000
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Principal on bus notes	15,663
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Net increase in pension liability	(821,409)
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Net increase in deferred outflows of resources related to pension	296,669
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Net decrease in deferred inflows of resources related to pension	630,452
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Increases in compensated absences are reported as expenditures when financial resources are used in the governmental funds in accordance with GASB Interpretation No. 6	(1,140)
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CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 293,466</u>
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HILLMAN COMMUNITY SCHOOLS
 Alpena, Montmorency and Presque Isle Counties, Michigan
 STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
 June 30, 2016 and 2015

	Student Acitivity Fund	
	2016	2015
ASSETS		
Cash in bank	\$ <u>61,471</u>	\$ <u>64,027</u>
LIABILITIES		
Due to school organizations	\$ <u>61,471</u>	\$ <u>64,027</u>

See Notes to Financial Statements

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2016

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 (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.

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

NOTE TO FINANCIAL STATEMENTS
June 30, 2016

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

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:

General Fund – Major 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.

2005 Debt Retirement Fund – Major 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.

The School District reports the following nonmajor governmental funds:

Food Service Fund – Nonmajor fund

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

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

NOTE TO FINANCIAL STATEMENTS
June 30, 2016

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

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 July 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.

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.

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

NOTE TO FINANCIAL STATEMENTS
June 30, 2016

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

Net Position/Fund Balances –

Net Position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. The district reports three categories of net position on the government-wide financial statements as follows:

- Net Investment in Capital Assets – consists of net capital assets reduced by outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction or improvement of those assets and increased by balances of deferred outflows of resources related to those assets.
- Restricted Net Position – net position is considered restricted if their use is constrained to specific purposes by their providers, through constitutional provisions, or by enabling legislation;
- Unrestricted Net Position – consist of all other net position that does not meet the definition of the above two components and is available for general use by the District.

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

Fund Balances – In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of those resources. 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.

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

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

NOTE TO FINANCIAL STATEMENTS
June 30, 2016

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 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. The budget was amended several times during the year first to adjust for state aid revenues once additional information on funding and student counts were known and later in the year for unexpected expenditures. The budget is prepared on the same accounting basis as the underlying financial statements.

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

All annual appropriations lapse at fiscal year end.

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, 2016 the carrying amount of the District's deposits was \$ 825,836 (including student activities), and the bank balance was \$ 850,615. The uninsured balance was \$ 478.

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.

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

NOTE TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 3. CASH AND AND EQUIVALENTS – CREDIT RISK(continued):

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, 2016.

NOTE 4. CAPITAL ASSETS:

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

	Balance July 1, 2015	Additions	Disposal	Balance June 30, 2016
Capital assets not being depreciated				
Land	\$ 196,300	\$ 0	\$ 0	\$ 196,300
Capital assets being depreciated				
Land improvements	395,884	0	0	395,884
Buildings and improvements	9,829,091	12,433	0	9,841,524
Buses and other vehicles	571,036	8,924	0	579,960
Furniture and equipment	<u>2,222,470</u>	<u>42,059</u>	<u>0</u>	<u>2,264,529</u>
Total Capital Assets	13,214,781	63,416	0	13,278,197
Accumulated Depreciation				
Land and improvements	259,383	16,635	0	276,018
Buildings and improvements	4,195,783	185,106	0	4,380,888
Buses and other vehicles	456,190	28,828	0	485,018
Furniture and equipment	<u>1,941,065</u>	<u>68,736</u>	<u>0</u>	<u>2,009,801</u>
Total Accumulated Depreciation	<u>6,852,420</u>	<u>299,305</u>	<u>0</u>	<u>7,151,725</u>
Net Capital Assets	<u>\$ 6,362,361</u>	<u>\$ (235,889)</u>	<u>\$ 0</u>	<u>\$ 6,126,472</u>

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

Governmental activities:

Unallocated	<u>299,305</u>
Total governmental activities	<u>\$ 299,305</u>

NOTE 5. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS:

There are no interfund receivables or payables.

There were no transfer between funds.

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

NOTE TO FINANCIAL STATEMENTS
June 30, 2016

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, 2016

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, 2016:

	<u>Beginning</u> <u>ance</u>	<u>Bal</u>	<u>Additions</u>	<u>Reduction</u>	<u>Ending</u> <u>Balance</u>
Bonds Payable- Bus Notes	\$ 15,663		\$ 0	\$ 15,663	\$ 0
2015 Refunding	<u>3,955,000</u>		<u>0</u>	<u>450,000</u>	<u>3,505,000</u>
	3,970,663		0	465,663	3,505,000
Other Obligations- Compensated Absences	<u>86,489</u>		<u>1,139</u>	<u>0</u>	<u>87,628</u>
	<u>\$ 4,057,152</u>		<u>\$ 1,139</u>	<u>\$ 465,663</u>	<u>\$ 3,592,628</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>
2017	\$ 475,000	\$ 72,726	\$ 547,729
2018	485,000	63,226	548,226
2019	490,000	53,526	543,526
2020	500,000	43,726	543,726
2021	510,000	33,726	543,726
2022	520,000	23,526	543,526
2023	<u>525,000</u>	<u>13,120</u>	<u>538,120</u>
	<u>\$ 3,505,000</u>	<u>\$ 303,576</u>	<u>\$ 3,808,579</u>

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.

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

NOTE TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 7. LONG-TERM DEBT (continued):

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 .00243 times the base BA base rate in effect for the year ended June 30, 2016. As of June 30, 2016 the amount which would be due upon retirement for eligible staff is \$ 87,628.

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.

NOTE 10. RETIREMENT PLAN:

Plan Description

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

The System is administered by the Office of Retirement Services (ORS) within the Michigan Department of Technology, Management & Budget. The Department Director appoints the Office Director, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer and custodian for the System. The System's financial statements are available at www.michigan.gov/mpsers-cafr.

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

NOTE TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 10. RETIREMENT PLAN (continued):

Benefits Provided

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Depending on the plan option selected, member retirement benefits for are determined by final average compensation, years of service, and a pension factor ranging from 1.25% to 1.50%. 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.

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

Contributions and Funded Status

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

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2015 valuation will be amortized over a 21-year period for the 2015 fiscal year.

The table below summarizes pension contribution rates in effect for fiscal year

Benefit Structure	Member Rates	Employer Rates
Basic	0.0% - 4.0%	22.52% - 23.07%
Member Investment Plan (MIP)	3.0% - 7.0%	22.52% - 23.07%
Pension Plus	3.0% - 6.4%	21.99%
Defined Contribution	0.0%	17.72% - 18.76%

The District's contribution to MPSERS under all pension plans for the year ended June 30, 2016 was \$ 614,766.

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

NOTE TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 10. RETIREMENT PLAN (continued):

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

At June 30, 2016, the District reported a liability of \$ 6,725,776 for its proportionate share of the MPERS net pension liability. The net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2014. The District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2015, the District's proportion was .02754%, which was an increase of .00073% from its proportion measured as of September 30, 2014.

For the year ended June 30, 2016, the District recognized pension expense of \$ 605,209. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Net Deferred Outflows (Inflows) of Resources</u>
Differences between expected and actual experience	\$ 0	\$ 22,278	\$ (22,278)
Changes in assumptions	165,603	0	165,603
Net difference between projected and actual earnings on pension plan investments	34,330	0	34,330
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>136,471</u>	<u>0</u>	<u>136,471</u>
Total	336,404	22,278	314,126
District contributions subsequent to the measurement date	562,378	0	562,378
Total	<u>\$ 898,782</u>	<u>\$ 22,278</u>	<u>\$ 876,504</u>

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

NOTE TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 10. RETIREMENT PLAN (continued):

\$562,378 reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Amount
2017	\$ 55,610
2018	55,610
2019	46,626
2020	156,280
Total	\$ 314,126

Actuarial Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The total pension liability in the September 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry age, normal
Wage inflation rate	3.5%
Investment rate of return:	
MIP and Basic plans (non-hybrid)	8.0%
Pension Plus plan (hybrid)	7.5%
Projected salary increases	3.5% - 12.3%, including wage inflation at 3.5%
Cost of living adjustments	3% annual non-compounded for MIP members
Mortality	RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

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

NOTE TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 10. RETIREMENT PLAN (continued):

Assumption changes as a result of an experience study for the period 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, 2015, is based on the results of an actuarial valuation date of September 30, 2014, and rolled forward using generally accepted actuarial procedures, including the experience study.

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 asset class included in the pension plan's target asset allocation as of September 30, 2015, are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
Domestic equity pools	28.00%	5.90%	1.64%
Alternative investment pools	18.00%	9.20%	1.66%
International equity	16.00%	7.20%	1.15%
Fixed income pools	10.50%	0.90%	0.09%
Real estate and infrastructure pools	10.00%	4.30%	0.43%
Absolute return pools	15.50%	6.00%	0.93%
Short-term investment pools	2.00%	0.00%	0.00%
	<hr style="border-top: 1px solid black;"/>		
	100.00%		5.90%
			<hr style="border-top: 1px solid black;"/>
Inflation			2.10%
			<hr style="border-top: 1px solid black;"/>
Investment rate of return			8.00%
			<hr style="border-top: 3px double black;"/>

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 provided through non-university employers only). 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

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

NOTE TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 10. RETIREMENT PLAN (continued):

determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 8.0% (7.0% for the Hybrid Plan), as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage higher:

	1% Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
District's proportionate share of the net pension liability	\$ 8,671,249	\$ 6,725,776	\$ 5,085,662

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPSERS financial statements available on the State of Michigan Office of Retirement Services website at www.michigan.gov/orsschools.

Payable to the Pension Plan

At June 30, 2016, the District reported a payable of \$ 92,378 for the outstanding amount of pension contributions to the Plan required for the year ended June 30, 2016.

Other Postemployment Benefits

Retirees enrolled in MPSERS before September 4, 2012 have the option of participating in the Premium Subsidy plan, a defined benefit postemployment healthcare plan, which is funded by employers on a cash disbursement basis. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension. Employer contributions range from 2.71% to 6.83% of covered payroll. Plan participants contribute 3% of covered payroll to the Retiree Healthcare Fund. At retirement, these individuals receive a subsidy for healthcare premiums that covers up to 80% of cost.

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

NOTE TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 10. RETIREMENT PLAN (continued):

Plan members enrolled on or after September 4, 2012 participate in the Personal Healthcare Fund. This defined contribution other postemployment benefits plan includes a required 2% employee contribution into a personal tax-deferred account, which is matched by an additional 2% employer contribution. Employees are fully vested in these contributions which can be used, along with earnings thereon, to pay for postemployment healthcare expenses. Plan members working prior to September 4, 2012 were given the option to convert from the Premium Subsidy plan to the Personal Healthcare Fund option. Effective February 1, 2013, these members are no longer required to make the 3% employee contribution. Amounts paid into the Retiree Healthcare Fund between September 4, 2012 and February 1, 2013 were credited to each individual's Personal Healthcare Fund account. Any contributions made prior to September 4, 2012 were declared unconstitutional by the Supreme Court. Such amounts will be refunded by MPSERS to each District, including interest, and will then be refunded to individual employees.

The District's contributions to MPSERS for other postemployment benefits amounted to \$208,137 for the year ended June 30, 2016.

NOTE 11. PRIOR PERIOD ADJUSTMENTS FOR YEAR ENDED June 30, 2015.

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) as of July 1, 2014.

NOTE 12. MANAGEMENT REVIEW

Management has evaluated subsequent events and transactions for potential recognition and disclosure through October 18, 2016, 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, 2016

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>
REVENUES:			
Local sources	\$ 1,894,052	\$ 2,049,576	\$ 2,059,334
State sources	2,218,693	2,209,593	2,200,969
Federal sources	161,184	212,128	194,492
Interdistrict and other sources	<u>123,000</u>	<u>171,434</u>	<u>171,436</u>
Total Revenues	4,396,929	4,642,731	4,626,231
EXPENDITURES:			
Instruction-			
Basic programs	2,237,667	2,284,270	2,262,930
Added needs	518,419	522,937	498,606
Supporting services -			
Pupil	55,820	55,820	55,789
Instructional staff	4,000	55,299	52,590
General administration	87,223	152,926	146,924
School administration	385,393	391,596	386,515
Business services	163,559	151,560	138,291
Operation & maintenance	579,798	625,653	602,389
Transportation	375,152	357,233	341,983
Support services - Central	105,925	104,351	96,661
Support services - Other	114,000	104,558	102,675
Community services -			
Community activities	<u>500</u>	<u>3,472</u>	<u>2,663</u>
Total Expenditures	4,627,456	4,809,675	4,688,016
OTHER FINANCING SOURCES (USES)			
Operating transfers out	(60,000)	(22,000)	(21,864)
State aid payback	0	(265)	(264)
Indirect costs recovery	0	14,000	21,864
Sale of assets	0	0	0
Redemption of school bus loans	(22,206)	(15,664)	(15,663)
Interest on school bus loans	<u>0</u>	<u>(810)</u>	<u>(810)</u>
Net other financing sources (uses)	(82,206)	(24,739)	(16,737)
NET CHANGE IN FUND BALANCE	(312,733)	(191,683)	(78,522)
Prior year adjustment - state aid	0	0	0
FUND BALANCE - BEGINNING OF YEAR	<u>523,564</u>	<u>657,694</u>	<u>657,694</u>
FUND BALANCE - END OF YEAR	<u>\$ 210,831</u>	<u>\$ 466,011</u>	<u>\$ 579,172</u>

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

BUDGET COMPARISON SCHEDULE - FOOD SERVICE FUND
Year Ended June 30, 2016

	Original Budget	Final Amended Budget	Actual
REVENUES:			
Local sources	\$ 62,740	\$ 65,671	\$ 66,013
State sources	14,830	14,866	15,035
Federal sources	196,400	212,163	209,016
Total Revenues	273,970	292,700	290,064
EXPENDITURES:			
Supporting services - Food service	336,128	300,018	291,834
OTHER FINANCING SOURCES (USES):			
Indirect costs	0	(22,000)	(21,864)
Operating transfer In	60,000	30,000	21,864
Net other financing sources (uses)	60,000	8,000	0
NET CHANGE IN FUND BALANCE	(2,158)	682	(1,770)
FUND BALANCE - BEGINNING OF YEAR	6,558	11,799	11,799
FUND BALANCE - END OF YEAR	\$ 4,400	\$ 12,481	\$ 10,029

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

Schedule of the District'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. District's proportion of net pension liability (%)									0.02754%	0.02681%
B. District's proportionate share of net pension liability									6,725,776	5,904,367
C. District's covered-employee payroll									2,298,662	2,282,458
D. District's proportionate share of net pension liability as a percentage of its covered-employee payroll									292.60%	258.68%
E. Plan fiduciary net position as a percentage of total pension liability									63.17%	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 District'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	\$	\$	\$	\$	\$	\$	\$	\$	\$ 614,766	\$ 431,600
B. Contributions in relation to statutorily required contributions									614,766	431,600
C. Contribution deficiency (excess)	\$	\$	\$	\$	\$	\$	\$	\$	-	-
D. District's covered-employee payroll	\$	\$	\$	\$	\$	\$	\$	\$	\$ 2,188,141	\$ 2,316,044
E. Contributions as a percentage of covered-employee payroll									28.10%	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, 2016

Changes of benefit terms: There were no significant changes of benefit terms during the measurement period.

Changes of assumptions: Assumption changes as a result of an experience study for the period 2007 through 2012, and 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, 2015 is based on the results of an actuarial valuation date of September 30, 2014 and rolled forward using generally accepted actuarial procedures, including the experience study.

OTHER SUPPLEMENTAL INFORMATION

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

GENERAL FUND
DETAIL SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
Years Ended June 30, 2016 and 2015

REVENUES:	2016	2015
Local Sources -		
Current tax levy	\$ 1,849,382	\$ 1,844,353
Other taxes	0	0
Revenue in lieu of taxes	1,780	5,571
Interest on delinquent taxes	11,674	10,466
Gate receipts	23,539	23,189
Participation fees	18,092	18,452
Transportion fees	7,987	11,064
Interest on investments	2,796	3,164
Rentals	10,968	9,400
Royalties	934	2,152
Local grants and donations	66,593	80,557
Other	65,589	33,879
Total Local Sources	2,059,334	2,042,247
State Sources -		
State Foundation Grant	1,618,980	1,760,102
Isolated Districts	21,419	22,214
Best Financial Practices	0	25,817
Performance Based Funding	0	14,952
MPSERS 147a	32,742	31,820
MPSERS 147c	264,447	201,077
Financial Analytic Tools	704	0
Special Education	98,939	76,528
At Risk - Section 31a	132,621	134,514
Targeted Literacy	7,095	0
Headlee Data Collection	12,211	12,480
First Robotics	0	9,416
Technology infastructure	2,876	4,032
Dual Enrollment Incentives	1,740	0
Trig Stipend	4,547	0
Other	2,648	1,740
Total State Sources	2,200,969	2,294,691
Federal Sources -		
Title 1	134,253	128,595
Title II A	39,025	41,234
Small Rural Schools	21,050	20,991
Medicaid Outreach	164	1,139
Total Federal Sources	194,492	191,959

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

GENERAL FUND
DETAIL SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE (CONTINUED)
Years Ended June 30, 2016 and 2015

REVENUES (Continued):	<u>2016</u>	<u>2015</u>
Interdistrict and Other Sources		
Transfers from other governmental units:		
Special Education	\$ 142,284	\$ 128,678
Medicaid Fee for Service	29,152	24,896
Great Start Readiness Program	<u>0</u>	<u>0</u>
Total Interdistrict and Other Sources	<u>171,436</u>	<u>153,574</u>
Total Revenues	4,626,231	4,682,471
EXPENDITURES:		
Instruction	2,761,536	2,938,449
Supporting Services	1,923,817	1,839,496
Community Services	<u>2,663</u>	<u>0</u>
Total Expenditures	4,688,016	4,777,945
OTHER FINANCING SOURCES (USES):		
Operating transfers out	(21,864)	(48,272)
Sale of assets	0	5,473
Redemption of school bus loans	(15,663)	(15,365)
State aid adjustment	(264)	0
Indirect cost recovery	21,864	23,000
Interest on school bus loans	<u>(810)</u>	<u>(1,357)</u>
Net Other Financing Sources (Uses)	<u>(16,737)</u>	<u>(36,520)</u>
NET CHANGE IN FUND BALANCE	(78,522)	(131,994)
FUND BALANCE - BEGINNING OF YEAR	<u>657,694</u>	<u>789,688</u>
FUND BALANCE - END OF YEAR	<u>\$ 579,172</u>	<u>\$ 657,694</u>

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

GENERAL FUND
DETAIL OF EXPENDITURES
Year Ended June 30, 2016 and Comparative totals for 2015

INSTRUCTION:	Salaries	Empoyee Benefits	Purchased Services	Supplies and Other Costs	Other Expenses	Capital Outlay	Totals	
							2016	2015
Basic Programs -								
Elementary	\$ 631,357	\$ 451,960	\$ 30,041	\$ 24,043	\$ 1,107	\$ 0	\$ 1,138,508	\$ 1,150,865
Secondary	566,351	389,158	72,042	84,238	1,955	10,678	1,124,422	1,247,709
Pre School	0	0	0	0	0	0	0	0
Total Basic Programs	1,197,708	841,118	102,083	108,281	3,062	10,678	2,262,930	2,398,573
Added Needs -								
Special Education	177,677	116,635	5,926	1,485	0	0	301,723	295,248
Compensatory Education	104,459	75,949	10,446	6,029	0	0	196,883	244,628
Total Added Needs	282,136	192,584	16,372	7,514	0	0	498,606	539,876
Total Instruction	1,479,844	1,033,702	118,455	115,795	3,062	10,678	2,761,536	2,938,449
SUPPORTING SERVICES:								
Pupil -								
Guidance Services	0	0	54,320	1,469	0	0	55,789	55,596
Instructional Staff Services -								
Improvement of Instruction	0	0	15,500	824	0	0	16,324	952
Media Services	0	0	0	559	0	0	559	0
Instructional Related Technology	0	0	0	34,032	0	0	34,032	0
Supervision and Direction	0	0	0	0	0	0	0	0
Academic Student Assessment	0	0	0	1,675	0	0	1,675	1,912
Total Instructional Staff	0	0	15,500	37,090	0	0	52,590	2,863

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

GENERAL FUND
DETAIL OF EXPENDITURES (CONTINUED)
Year Ended June 30, 2016 and Comparative Totals 2015

SUPPORTING SERVICE (CONTINUED):	Salaries	Employee Benefits	Purchased Services	Supplies and Other Costs	Other Expenses	Capital Outlay	Totals	
							2016	2015
General Administration Services -								
Board of Education	\$ 1,373	\$ 108	\$ 30,303	\$ 1,729	\$ 54,112	\$ 0	\$ 87,625	\$ 53,524
Executive Administration	<u>29,370</u>	<u>15,173</u>	<u>8,504</u>	<u>0</u>	<u>6,252</u>	<u>0</u>	<u>59,299</u>	<u>68,241</u>
Total General Administrative Services	30,743	15,281	38,807	1,729	60,364	0	146,924	121,765
School Administrative Services -								
Office of the Principal	221,594	162,429	952	1,540	0	0	386,515	347,207
Business Services -								
Fiscal Services	66,286	42,363	1,052	415	817	0	110,933	108,685
Other Business Services	<u>0</u>	<u>0</u>	<u>24,444</u>	<u>0</u>	<u>2,914</u>	<u>0</u>	<u>27,358</u>	<u>31,984</u>
Total Business Services	66,286	42,363	25,496	415	3,731	0	138,291	140,669
Operations and Maintenance -								
Operations of Buildings Services	162,584	118,558	104,452	171,177	300	43,814	600,885	561,332
Security Services	<u>0</u>	<u>0</u>	<u>1,504</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,504</u>	<u>1,441</u>
Total Operations and Maintenance	162,584	118,558	105,956	171,177	300	43,814	602,389	562,773
Pupil Transportation Services -								
Pupil Transportation Services	177,470	96,401	7,238	49,207	2,743	8,924	341,983	379,176
Support Services - Central -								
Staff/Personnel Services	11,245	6,128	0	0	0	0	17,373	30,775
Non Instructional Technology	<u>0</u>	<u>0</u>	<u>48,150</u>	<u>31,138</u>	<u>0</u>	<u>0</u>	<u>79,288</u>	<u>88,449</u>
Total Support Services - Central	11,245	6,128	48,150	31,138	0	0	96,661	119,225
Support Services - Other -								
Athletics	12,736	5,746	68,750	9,180	6,263	0	102,675	110,222
Total Supporting Services	682,658	446,906	365,169	302,945	73,401	52,738	1,923,817	1,839,496
COMMUNITY SERVICES:								
Community Activities	<u>0</u>	<u>0</u>	<u>250</u>	<u>2,413</u>	<u>0</u>	<u>0</u>	<u>2,663</u>	<u>0</u>
Total Expenditures	<u>\$ 2,162,502</u>	<u>\$ 1,480,608</u>	<u>\$ 483,874</u>	<u>\$ 421,153</u>	<u>\$ 76,463</u>	<u>\$ 63,416</u>	<u>\$ 4,688,016</u>	<u>\$ 4,777,945</u>

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

FOOD SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
Years Ended June 30, 2016 and 2015

REVENUES:	Years Ended June 30,	
	2016	2015
Local sources -		
Cafeteria sales	\$ 45,999	\$ 48,736
Milk machine	3,704	2,495
Earnings on investments	34	39
Headstart sales	0	5,995
GSRP lunches	0	9,417
Other	<u>16,276</u>	<u>2,556</u>
Total local sources	66,013	69,238
State sources -		
Section 31a At Risk	2,140	2,330
Section 31d School Lunch	<u>12,895</u>	<u>12,527</u>
Total state sources	15,035	14,857
Federal sources -		
National School Lunch Program	133,521	129,612
Nutrition Grant	900	0
National School Breakfast Program	61,343	51,020
Donated commodities - Entitlement	<u>13,252</u>	<u>16,306</u>
Total federal sources	<u>209,016</u>	<u>196,938</u>
Total revenues	290,064	281,033
EXPENDITURES:		
Supporting services -		
Food service -		
Salaries and wages	94,299	88,657
Employee benefits	62,806	61,767
Purchased services	4,195	6,635
Food and milk	114,051	113,115
USDA Delivery charge	15,570	27,723
Sales tax	516	1,043
Supplies and other costs	<u>397</u>	<u>6,536</u>
Total expenditures	291,834	305,476
OTHER FINANCING SOURCES (Uses):		
Operating transfers in	21,864	48,272
Indirect costs	<u>(21,864)</u>	<u>(23,000)</u>
Total other financing sources (uses)	<u>0</u>	<u>25,272</u>
NET CHANGE IN FUND BALANCES	(1,770)	829
FUND BALANCE - BEGINNING OF YEAR	<u>11,799</u>	<u>10,970</u>
FUND BALANCE - END OF YEAR	<u>\$ 10,029</u>	<u>\$ 11,799</u>

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

2005 DEBT RETIREMENT FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
Years Ended June 30, 2016 and 2015

REVENUES:	2016	2015
Local sources -		
Current tax levy	\$ 553,031	\$ 572,056
Other taxes	0	0
Interest on delinquent taxes	3,715	3,468
Earnings on investments	<u>978</u>	<u>1,098</u>
Total local sources	557,724	576,622
State sources -		
Debt loss on personals	1,683	0
Payment in lieu of taxes	<u>16,422</u>	<u>16,697</u>
Total revenues	575,829	593,319
EXPENDITURES:		
Debt service -		
Bond principal	450,000	465,000
Interest on bonded debt	100,113	156,792
Paying agent fees	500	300
Taxes paid back	<u>0</u>	<u>383</u>
Total expenditures	<u>550,613</u>	<u>622,475</u>
NET CHANGE IN FUND BALANCES	25,216	(29,156)
FUND BALANCE - BEGINNING OF YEAR	<u>64,571</u>	<u>93,727</u>
FUND BALANCE - END OF YEAR	<u>\$ 89,787</u>	<u>\$ 64,571</u>

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

FIDUCIARY FUND
SCHEDULE OF DUE TO SCHOOL ORGANIZATIONS
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ELEMENTARY -		
Fines	\$ 440	\$ 440
General Purpose	1,995	2,534
Library	157	1,358
MiBLSi	0	26
Physical Education	77	126
Playground	0	80
School Spirit Store	1,053	618
Student Improvement	<u>(526)</u>	<u>(560)</u>
Total Elementary	3,196	4,622
HIGH SCHOOL -		
Athletics	600	510
Class of 2013	0	0
Class of 2014	0	51
Class of 2015	0	262
Class of 2016	634	6,849
Class of 2017	4,806	5,178
Class of 2018	4,164	3,088
Class of 2019	4,601	1,105
Class of 2020	671	671
Class of 2021	771	0
Band	1,389	1,494
Baseball	3,323	981
Basketball JH	26	26
Basketball - Girls	3,802	4,775
Basketball - Boys	1,214	183
Broadcasting	1,138	1,216
Cheerleading	693	659
Corn Maze	188	188
Drama	196	210
International travel	1,001	0
Fines & Supplies	117	156
Football	1,381	1,461

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

FIDUCIARY FUND
SCHEDULE OF DUE TO SCHOOL ORGANIZATIONS (CONTINUED)
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
HIGH SCHOOL (Continued) -		
Golf	\$ 0	\$ 0
Hall of Fame	553	462
Honor Society	667	286
Library	345	345
News Writing	23	23
No Detention	0	0
Physics	320	398
Pizza Club	52	273
Rentals	864	864
Revolving Account	636	181
Robotics	319	19
Scholarship	1,000	1,000
Scholarship	7,500	8,500
Shop	3,476	4,384
Softball	2,462	826
Spanish	104	176
Special Ed	114	1,339
Student	0	0
Student Council	1,134	1,260
Student Improvement	1,473	2,314
Track	426	866
Track - Junior High	103	128
Volleyball	362	717
Youth Community Service	0	0
Yearbook	<u>5,627</u>	<u>5,981</u>
 Total High School	 <u>58,275</u>	 <u>59,405</u>
	 <u>\$ 61,471</u>	 <u>\$ 64,027</u>

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

DETAIL OF 2015 REFUNDING BONDS
June 30, 2016

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
2016			36,363	36,363
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
	\$ 3,505,000	\$ 151,788	\$ 151,788	\$ 3,808,575

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

DETAIL OF BUS NOTE PAYABLE
June 30, 2016

Security: 2010 77 Passenger Bus
Date of Loan: Novemebr 12, 2010
Interest Rate: 4.70%

Date	Payment	Principal	Interest
November 1, 2015	\$ <u>paid</u>	\$ _____	\$ _____
	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>



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CERTIFIED PUBLIC ACCOUNTANTS

Partners:
Timothy J. Quast, C.P.A.
David G. Gwizdala, C.P.A.

Members:
American Institute of C.P.A.'s
Michigan Association of C.P.A.'s

**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, 2016, and the related notes to the financial statements, which collectively comprise Hillman Community Schools' basic financial statements, and have issued our report thereon dated September 29, 2016.

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
September 29, 2016