

**NORTH HURON SCHOOLS  
KINDE, MICHIGAN**

**FINANCIAL STATEMENTS  
JUNE 30, 2016**

# **NORTH HURON SCHOOLS**

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## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Education  
North Huron Schools  
Kinde, Michigan

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of North Huron Schools, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

### **Auditor's Responsibility**

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

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

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

## **INDEPENDENT AUDITOR'S REPORT (CONTINUED)**

### **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 North Huron Schools, as of June 30, 2016, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

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

#### *Other Information*

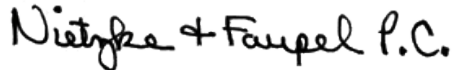
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise North Huron School's basic financial statements. The additional supplementary information is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

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

## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2016, on our consideration of North Huron School's 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 North Huron School's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Nietzke & Faupel P.C." in a cursive, slightly stylized font.

NIETZKE & FAUPEL, P.C.  
Pigeon, Michigan

October 25, 2016

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section of North Huron School's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2016. Please read it in conjunction with the district's financial statements, which immediately follow this section.

### **FINANCIAL HIGHLIGHTS**

The District's General Fund showed revenues greater than expenditures. Revenue exceeded expenditures by \$136,401.

The Food Service Fund showed greater expenditures over revenue. Expenditures exceeded revenue by \$13,506. This decreased the fund balance from \$76,112 to \$62,606.

In total, District revenues exceeded \$6.0 and \$6.6 million dollars for the fiscal years ended June 30, 2016 and 2015, respectively. Expenditures over the same time period were \$6.3 and \$6.3 million dollars for the fiscal years ended June 30, 2016 and 2015, respectively.

During the fiscal year 2016, the District retired \$850,000 of principal from its long-term debt.

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

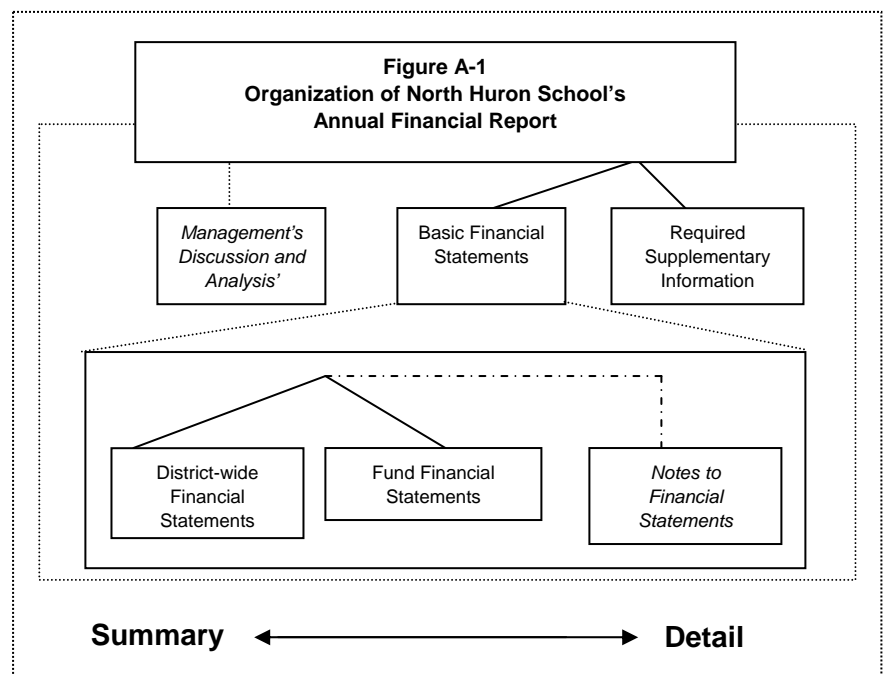
This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

The first two statements are district-wide financial statements that provide both short-term and long-term information about the District's overall financial status.

The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District's operations *in more detail* than the district-wide statements.

The *governmental fund* statements tell how *basic* services like instruction and support services were financed in the *short term* as well as what remains for future spending.

Fiduciary fund statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.



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

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

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

## GOVERNMENT-WIDE STATEMENTS

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

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

(Continued)



Over time, increases or decreases in the District's net position is an indicator of whether its financial position is improving or deteriorating, respectively.

To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the government-wide financial statements, the District's activities included:

Governmental activities – Most of the District's basic services are included here, such as instruction, support 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.

## **FUND FINANCIAL STATEMENTS**

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

Some funds are required by State law and by bond covenants.

The District establishes other funds to control and manage money for particular purposes (like repaying debt, and its capital project fund) or to show that it is properly using certain revenues (like school lunch).

The District has two kinds of funds:

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

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

## **FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

The District's combined net position at the beginning of the fiscal year was adjusted to include the debt of Port Hope Community School as of July 1, 2015. The net effect was a decrease of \$1,976,538, from \$1,828,360 to \$(148,178).

The District's combined net position increased \$541,935 from \$(148,178) to \$393,757 as of June 30, 2016. The District's improved financial position is the result of capital additions..

(Continued)

The statement of net position provides the perspective of the District as a whole. Table A-3 provides a summary of the District's net position as of June 30, 2016 and 2015.

**Table A-3  
North Huron Schools  
Net Position**

	<b><u>2016</u></b>	<b><u>2015</u></b>
Current assets	\$ 2,822,578	\$ 2,889,024
Noncurrent assets	<u>7,075,388</u>	<u>7,020,432</u>
Total assets	<u>9,897,966</u>	<u>9,909,456</u>
 Deferred outflows of resources	 <u>1,230,175</u>	 <u>523,730</u>
 Current liabilities	 1,597,315	 1,165,999
Noncurrent liabilities	3,122,398	2,224,231
Net pension liability	<u>5,829,025</u>	<u>4,695,506</u>
Total liabilities	<u>10,548,738</u>	<u>8,085,736</u>
 Deferred inflows of resources	 <u>185,646</u>	 <u>519,090</u>
 Net position:		
Net investment in capital assets	3,243,892	4,629,833
Restricted	409,870	399,705
Unrestricted	<u>(3,260,005)</u>	<u>(3,201,178)</u>
Total net position	<u>\$ 393,757</u>	<u>\$1,828,360</u>

The statement of activities shows the results of this year's operations for North Huron Schools as a whole. Table A-4 shows the changes in net position of the District as of June 30, 2016 and 2015.

**Table A-4**  
**Change in North Huron School's Net Position**

	<u><b>2016</b></u>	<u><b>2015</b></u>
Revenues		
Program revenues		
Charges for services	\$ 134,299	\$ 143,958
Federal and state categorical grants	1,200,855	1,403,351
General revenues		
Property taxes	3,670,573	2,926,325
State sources	678,116	1,181,944
Other	<u>450,458</u>	<u>276,772</u>
Total revenues	<u>6,134,301</u>	<u>5,932,350</u>
Expenses		
Instruction	3,121,909	3,298,844
Support services	2,060,306	1,947,802
Community services	9,209	29,574
Food services	262,610	245,273
Interest on long-term debt	123,328	127,014
Depreciation - Unallocated	<u>15,005</u>	<u>15,235</u>
Total expenses	<u>5,592,366</u>	<u>5,663,742</u>
Change in net position	<u>541,935</u>	<u>268,608</u>
Net position, beginning of year	1,828,360	1,559,752
Adjustment for Port Hope Community School annexation	(1,976,538)	-
Net position, end of year	<u>\$ 393,757</u>	<u>\$1,828,360</u>

#### **District Governmental Activities**

The financial performance of the District as a whole is reflected in its governmental funds. As the district completed the year, its governmental funds reported combined fund balances of \$2,211,797. This is a decrease of \$(175,933) from the previous year primarily from the completion of the capital projects.

The District's financial condition has been impacted by a number of factors.

- Continued with a third party provider for supporting services.
- Contracted with a third party provider for student transportation routes.
- Full-time equivalent students enrolled in the District decreased from 470.40 (October 2014) to 448.77 (February 2015 count). North Huron Schools does participate in School of Choice and Open Enrollment to attract new students to the District.
- The District's payment into the Michigan Public School Employees' Retirement System (MPERS) ranged from 31.49% to 36.31% of qualified wages in 2015. 10.53% of this cost was offset by State categorical revenues.

## FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

### General Fund and Budget Highlights

During the 2016 fiscal year, the District's original budget was amended to reflect changes which affected the District. These changes included adjustments for the final student count, adjustments to the State revenue projections and the final determination of grant awards.

The final amended budget reported expenditures \$216,061 greater than revenues and other financing sources. Final results showed that revenues were \$6,460 less than anticipated, and expenditures were less than anticipated by \$57,957. The net result after other financing sources and (uses) was a change in the fund balance of \$136,401, increasing the fund balance to \$1,735,928. The increase is due to the prior period adjustment of \$300,967 to include Port Hope Community Schools fund balance at July 1, 2015.

Overall, the difference between the District's final amended budget and end of the year figures amounted to a \$352,463 variance.

### Food Service Fund

Local revenue decreased \$2,290; Federal reimbursements decreased \$1,203 and state reimbursements increased \$1,435. Overall revenue was a decrease of \$1,203 from 2015.

On the expenditure side, food cost increased \$9,599, and wages and employee benefits increased \$15,370. The overall change in expenditures was an increase of \$20,207 over 2015.

### Capital Projects Fund

During fiscal year 2015, the District issued 2014 School Technology Bonds in the amount of \$750,000 for the purpose of installing and upgrading the District's wireless infrastructure and technology equipment including a new telephone system. The District has substantially completed the project during the current fiscal year.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

The District added \$318,801 in capital assets during the fiscal year. There were no capital asset disposals in 2015-2016.

**Table A-5**  
**North Huron Schools Capital Assets**  
**(Net of Depreciation)**

	<u>2016</u>	<u>2015</u>
Land	\$ 20,300	\$ 20,300
Buildings and additions	6,670,602	6,732,486
Furniture and equipment	220,362	85,403
Transportation equipment	<u>164,126</u>	<u>182,243</u>
Totals	<u>\$7,075,389</u>	<u>\$7,020,432</u>

### Long-term Debt

At year end, the District had over \$4.0 million in general obligation bonds and other long-term debt outstanding. During fiscal year 2016, the District repaid \$850,000 in principal. Included in long-term debt is Port Hope Community School 2015 Refunding Bonds in the amount of \$1,745,000. The long-term debt consisted of the following:

	<u>2016</u>	<u>2015</u>
<u>Port Hope debt:</u>		
General obligation bonds (financed with property taxes)	\$ 1,787,437	\$2,007,334
<u>North Huron debt:</u>		
General obligation bonds (financed with property taxes)	\$2,122,675	2,771,512
Compensated absences	<u>131,020</u>	<u>101,556</u>
Totals	<u>\$4,041,132</u>	<u>\$4,880,402</u>

### FACTORS BEARING ON THE DISTRICT'S FUTURE

- The foundation allowance for the District for 2016-17 school year will be \$7,671, up \$113 from the previous year.
- Retirement contributions will have a new average rate of 34.72% of salaries, effective October 1, 2016, with 11.70% of this cost expected to be offset by State categorical revenues.
- Student enrollment for 2016-17 is projected to be 441.77, which is a decrease of 7 students from the prior spring count.
- The District contracted with the local Intermediate School District to house a Great Start Readiness Program for the 2016-17 school year with a current enrollment of 32 slots @ \$3,407 per slot, less fees.
- State revenue sources continue to only increase by minimal amounts.
- Federal grants are expected to continue to decline.

### CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Business Office, North Huron Schools, 21 East Main Street, Kinde, MI 48445

## **BASIC FINANCIAL STATEMENTS**

**NORTH HURON SCHOOLS**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2016**

	<b>GOVERNMENTAL ACTIVITIES</b>
<b>ASSETS:</b>	
Cash and deposits	\$ 949,992
Investments	1,218,842
Receivables:	
Accounts receivable	3,785
Due from other governmental units	551,626
Inventory	3,007
Prepaid expenses	16,711
Restricted cash - capital projects	78,615
Nondepreciated capital assets	20,300
Depreciated capital assets	13,932,269
Less: Accumulated depreciation	(6,877,180)
<b>TOTAL ASSETS</b>	<u>9,897,966</u>
 <b>DEFERRED OUTFLOWS OF RESOURCES:</b>	
Deferred charge on bond refunding	36,044
Related to pensions	1,194,131
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<u>1,230,175</u>

**NORTH HURON SCHOOLS**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2016**

	<b>GOVERNMENTAL ACTIVITIES</b>
<b>LIABILITIES:</b>	
Accounts payable	\$ 129,516
Due to other governmental units	148,197
Salaries payable	238,554
Voluntary incentive pay	50,000
Accrued employee benefits	59,126
Accrued FICA payable	17,585
Accrued interest payable	17,801
Unearned revenue	17,802
Noncurrent liabilities:	
Due within one year	918,734
Due in more than one year	3,122,398
Net pension liability	5,829,025
<b>TOTAL LIABILITIES</b>	<u>10,548,738</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>	
Related to pensions	19,594
Related to state aid funding for pensions	166,052
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>185,646</u>
<b>NET POSITION:</b>	
Net investment in capital assets	3,243,892
Restricted for:	
Debt service	129,153
Library fund	221,564
Food service	59,153
Unrestricted	(3,260,005)
<b>TOTAL NET POSITION</b>	<u>\$ 393,757</u>



**NORTH HURON SCHOOLS**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2016**

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUE		GOVERNMENTAL ACTIVITIES
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION
<b>Governmental activities:</b>				
Instruction	\$ 3,121,909	\$ 8,611	\$ 1,017,838	\$ (2,095,460)
Support services	2,060,306	44,331	25,351	(1,990,625)
Community services	9,209	-	-	(9,209)
Food service	262,610	81,357	157,667	(23,585)
Interest on long-term obligations	123,328	-	-	(123,328)
Depreciation - Unallocated	15,005	-	-	(15,005)
<b>Total governmental activities:</b>	<u>\$ 5,592,366</u>	<u>\$ 134,299</u>	<u>\$ 1,200,855</u>	<u>(4,257,212)</u>
<b>General revenues:</b>				
Property taxes, levied for general purposes				2,692,249
Property taxes, levied for debt service				978,324
State sources				678,116
Investment earnings				5,570
Prior period adjustment				341,485
Miscellaneous				103,403
<b>Total general revenues</b>				<u>4,799,147</u>
<b>CHANGE IN NET POSITION</b>				<u>541,935</u>
<b>NET POSITION, beginning of year</b>				1,828,360
<b>Adjustment for Port Hope Community School annexation</b>				(1,976,538)
<b>NET POSITION, end of year</b>				<u>\$ 393,757</u>

# NORTH HURON SCHOOLS

## BALANCE SHEET GOVERNMENTAL FUNDS JUNE 30, 2016

	<u>GENERAL</u>	<u>FOOD SERVICE</u>	<u>COMBINED DEBT SERVICE</u>	<u>OTHER NONMAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<b><u>ASSETS</u></b>					
Cash and deposits	\$ 747,179	\$ 44,739	\$ 158,073	\$ 78,615	\$ 1,028,606
Investments	997,278	-	-	221,564	1,218,841
Accounts receivable	3,785	-	-	-	3,785
Due from other governmental units	549,951	1,675	-	-	551,626
Due from other funds	138,735	158,691	39	-	297,464
Inventory	-	3,007	-	-	3,007
Prepaid expenditures	16,265	446	-	-	16,711
<b>TOTAL ASSETS</b>	<b>\$ 2,453,193</b>	<b>\$ 208,557</b>	<b>\$ 158,112</b>	<b>\$ 300,179</b>	<b>\$ 3,120,041</b>
<b><u>LIABILITIES AND FUND BALANCES</u></b>					
<b><u>LIABILITIES:</u></b>					
Accounts payable	\$ 95,646	\$ -	\$ -	\$ 33,870	\$ 129,516
Due to other funds	158,729	138,694	41	-	297,464
Due to other governments	137,080	-	11,117	-	148,197
Salaries payable	233,170	5,384	-	-	238,554
Accrued employee benefits	57,253	1,873	-	-	59,126
Accrued FICA payable	17,585	-	-	-	17,585
Unearned revenue	17,802	-	-	-	17,802
<b>TOTAL LIABILITIES</b>	<b>717,265</b>	<b>145,951</b>	<b>11,158</b>	<b>33,870</b>	<b>908,244</b>
<b><u>FUND BALANCES:</u></b>					
Nonspendable:					
Inventory	-	3,007	-	-	3,007
Prepaid expenditures	16,265	446	-	-	16,711
Restricted for:					
Food service	-	59,153	-	-	59,153
Debt service	-	-	146,954	-	146,954
Library	-	-	-	221,564	221,564
Capital projects	-	-	-	44,745	44,745
Unassigned	1,719,663	-	-	-	1,719,663
<b>TOTAL FUND BALANCES</b>	<b>1,735,928</b>	<b>62,606</b>	<b>146,954</b>	<b>266,309</b>	<b>2,211,797</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 2,453,193</b>	<b>\$ 208,557</b>	<b>\$ 158,112</b>	<b>\$ 300,179</b>	<b>\$ 3,120,041</b>

**NORTH HURON SCHOOLS**

**RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO  
GOVERNMENTAL ACTIVITIES NET POSITION  
JUNE 30, 2016**

<b>TOTAL GOVERNMENTAL FUND BALANCES</b>	2,211,797
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**Amounts reported for governmental activities in the statement of net position are different because:**

Deferred outflows of resources - related to pensions	1,194,131
Deferred inflows of resources - related to pensions	(185,646)

Capital assets used in governmental activities are not financial resources, and therefore are not reported as assets in governmental funds.

The cost of capital assets is	\$ 13,952,568	
Accumulated depreciation is	<u>(6,877,178)</u>	7,075,389

Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:

Bonds payable	\$ 3,840,000	
Compensated absences	131,020	
Voluntary incentive pay	50,000	
Net pension liability	5,829,025	
Accrued interest payable	<u>17,801</u>	(9,867,846)

Certain transactions related to the advance refunding of the bonds are reported as revenue and expenditures in the fund financial statements, however they are reported as assets or liabilities in the government-wide financial statements.

2005 Refunding Bonds issued at a premium	(222,321)	
Less: Amortization of bond premium	<u>152,210</u>	(70,111)

<b>NET POSITION - GOVERNMENTAL ACTIVITIES</b>	<u><u>393,757</u></u>
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**NORTH HURON SCHOOLS**  
**STATEMENT OF REVENUE, EXPENDITURES**  
**AND CHANGE IN FUND BALANCE**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	<u>GENERAL</u>	<u>FOOD SERVICE</u>	<u>COMBINED DEBT SERVICE</u>	<u>OTHER NONMAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<b>REVENUE:</b>					
Local sources:					
Taxes	\$ 2,692,249	\$ -	\$ 978,324	\$ -	\$ 3,670,573
Food service	-	81,357	-	-	81,357
Interest	4,201	-	597	772	5,570
Other local revenue	418,456	-	-	-	418,456
Total local sources	3,114,906	81,357	978,922	772	4,175,956
State sources	1,250,655	10,079	-	-	1,260,734
Federal sources	192,953	157,667	-	-	350,620
<b>TOTAL REVENUE</b>	<u>4,558,513</u>	<u>249,104</u>	<u>978,922</u>	<u>772</u>	<u>5,787,310</u>
<b>EXPENDITURES:</b>					
Instruction	2,855,924	-	-	-	2,855,924
Supporting services	1,863,452	-	-	-	1,863,452
Community services	9,209	-	-	-	9,209
Food service	-	262,610	-	-	262,610
Capital projects	-	-	-	323,663	323,663
Debt service:					
Principal repayment	-	-	850,000	-	850,000
Interest and fiscal charges	-	-	145,377	-	145,377
<b>TOTAL EXPENDITURES</b>	<u>4,728,584</u>	<u>262,610</u>	<u>995,377</u>	<u>323,663</u>	<u>6,310,234</u>
<b>EXCESS OF REVENUE OVER (UNDER)</b>					
<b>EXPENDITURES</b>	<u>(170,071)</u>	<u>(13,506)</u>	<u>(16,455)</u>	<u>(322,891)</u>	<u>(522,923)</u>
<b>OTHER FINANCING SOURCES (USES):</b>					
Other financing sources	5,506	-	-	-	5,506
Prior period adjustment	300,967	-	40,518	-	341,485
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>306,473</u>	<u>-</u>	<u>40,518</u>	<u>-</u>	<u>346,991</u>
<b>EXCESS OF REVENUE AND</b>					
<b>OTHER SOURCES OVER (UNDER)</b>					
<b>EXPENDITURES AND OTHER USES</b>	<u>136,401</u>	<u>(13,506)</u>	<u>24,063</u>	<u>(322,891)</u>	<u>(175,933)</u>
<b>FUND BALANCE - JULY 1</b>	<u>1,599,527</u>	<u>76,112</u>	<u>122,891</u>	<u>589,200</u>	<u>2,387,730</u>
<b>FUND BALANCE - JUNE 30</b>	<u>\$ 1,735,928</u>	<u>\$ 62,606</u>	<u>\$ 146,954</u>	<u>\$ 266,309</u>	<u>\$ 2,211,797</u>

The accompanying notes are an integral part of the financial statements.

# NORTH HURON SCHOOLS

## RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES, AND CHANGE IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2016

**NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS** \$ (175,933)

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures.

However, for governmental activities those costs are shown in the statement of net position and are allocated over their estimated useful lives as annual depreciation expense in the statement of activities.

Depreciation expense	\$ (263,844)	
Capital outlays	<u>318,801</u>	54,957

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

Accrued interest payable, beginning of year	25,275	
Accrued interest payable, end of year	<u>(17,801)</u>	7,474

Bond repayments and proceeds are reported as revenue and expenditures in the fund financial statements and do not affect the statement of activities.

Proceeds from long-term debt	-	
Repayment of bond principal	<u>850,000</u>	850,000

Certain transactions related to the advance refunding of the bonds are reported as revenue and expenditures in the fund financial statements, however they are reported as assets or liabilities in the government-wide financial statements. The transactions include the following:

Amortization of bond premium	18,734	
Deferred loss on bond refunding	<u>(4,158)</u>	14,575

Accrued compensated absences are recorded in the statement of activities when incurred, but it is not recorded in the governmental funds until it is paid.

Accrued compensated absences, beginning of year	101,556	
Accrued compensated absences, end of year	<u>(131,020)</u>	(29,464)

Accrued voluntary incentive pay is recorded in the statement of activities when incurred, but it is not recorded in the governmental funds until it is paid.

Accrued voluntary incentive pay, beginning of year	-	
Accrued voluntary incentive pay, end of year	<u>(50,000)</u>	(50,000)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Pension related items		36,378
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Restricted revenue reported in the governmental funds that is deferred to offset the deferred outflows related to Section 147c pension contributions subsequent to the measurement period:

State aid funding for pension		(166,052)
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**CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES**

\$ 541,935

The accompanying notes are an integral part of the financial statements.

# **NORTH HURON SCHOOLS**

## **STATEMENT OF FIDUCIARY NET POSITION JUNE 30, 2016**

	<b><u>AGENCY FUNDS</u></b>
<b>ASSETS</b>	
Cash and deposits	\$ 87,216
<b>TOTAL ASSETS</b>	<u><u>\$ 87,216</u></u>
<b>LIABILITIES:</b>	
Due to student groups	\$ 87,216
<b>TOTAL LIABILITIES</b>	<u><u>\$ 87,216</u></u>

## NORTH HURON SCHOOLS

### NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016

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

The North Huron School District is a consolidated school system located in Huron County, Michigan. The School has approximately 456 students in grades kindergarten through twelve. The School operates under a seven person elected Board of Education.

The basic financial statements of the North Huron Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

#### **The Reporting Entity:**

The North Huron School District ("District") is governed by the North Huron Schools Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by U.S. GAAP. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statements (GASB).

#### **Government-wide and Fund Financial Statements:**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type activities. All of the District's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State foundation aid, taxes, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net position, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net position is reported in three parts – net investment in capital assets; restricted; and unrestricted.

The District first utilizes restricted resources to finance qualifying activities.

(Continued)

## NORTH HURON SCHOOLS

### NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016

#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

##### **Government-wide and Fund Financial Statements: (Continued)**

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, state sources, intermediate district sources, interest income and other revenues.) The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues.)

The District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net position resulting from the current year's activities.

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

**Governmental Funds** – Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the school district's expendable financial resources and the related current liabilities are reported through governmental funds.

The District reports the following major governmental funds:

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

The *food service fund* is a special revenue fund used to account for revenue sources and expenditures for the operations of the food service to the District.

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

##### **Other Non-major Funds:**

The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes. The District accounts for its library fund in a special revenue fund.

The *capital projects fund* accounts for the receipt of debt proceeds and the acquisition of capital assets or construction of major capital projects.



## NORTH HURON SCHOOLS

### NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016

#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

##### **Governmental Funds: (Continued)**

##### **Other Non-major Funds: (Continued)**

The 2014 School Technology Bond Capital Projects Fund includes capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the school district has complied with the applicable provisions of Section 1351(a)(2) of the Revised School Code.

Beginning with the year of bond issuance, the school district has reported the annual construction activity in the 2014 capital projects fund. The project for which the 2014 School Technology Bonds were issued was considered complete on September 7, 2016 and the cumulative expenditures recognized for the construction period were \$705,504.

The *fiduciary funds* account for assets held by the District in a trustee capacity or as an agent on behalf of others. Fiduciary funds are not included in the government-wide financial statements.

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

#### **Measurement Focus, Basis of Accounting and Basis of Presentation:**

##### **Accrual Method**

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

##### **Modified Accrual Method**

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

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

## **NORTH HURON SCHOOLS**

### **NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016**

#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)** **Measurement Focus, Basis of Accounting and Basis of Presentation: (Continued)**

##### **State Revenue**

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2016, the foundation allowance was based on pupil membership counts taken in February and October of the previous year.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills on Principal Residence Exemption (PRE) property and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by Non-PRE property taxes (formerly known as Non-Homestead) which may be levied at a rate of up to 18 mills as well as 6 mills for Commercial Personal Property Tax. The state revenue is recognized during the foundation period and is funded through payments from October 2015 to August 2016. Thus, the unpaid portion at June 30<sup>th</sup> is reported as due from other governmental units.

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

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as needed.

##### **Other Accounting Policies:**

##### **Cash and Equivalents**

The District's cash and equivalents include cash on hand, demand deposits and certificates of deposit.

##### **Investments**

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

# **NORTH HURON SCHOOLS**

## **NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016**

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

#### **Other Accounting Policies: (Continued)**

##### **Investments (Continued)**

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

##### **Receivables and Payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

##### **Inventory and Prepaid Items**

Inventory is valued at the lower of cost (first-in, first-out) or market. Inventory consisting of expendable supplies held for consumption, is recorded as an expenditure when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses/expenditures.

##### **Capital Assets**

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

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

Depreciation of all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	50 years
Furniture and other equipment	5 – 15 years

The District's capitalization policy is to capitalize assets with an initial individual cost of \$3,000 or more. Group purchases are evaluated on a case-by-case basis.

## NORTH HURON SCHOOLS

### NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016

#### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

##### **Other Accounting Policies: (Continued)**

##### **Defined Benefit Plan**

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

##### **Deferred Outflows/Inflows of Resources**

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

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has two items that qualify for reporting in this category. The first is the future resources yet to be recognized in relation to the pension actuarial calculation. These future resources arise from differences in the estimates used by the actuary to calculate the pension liability and the actual results. The amounts are amortized over a period determined by the actuary. The second is restricted Section 147c state aid deferred to offset deferred outflows related to Section 147c pension contributions subsequent to the measurement period.

##### **Compensated Absences**

The District's policies generally provide for granting vacation and sick leave with pay. The current and long-term liability for compensated absences is reported on the government-wide financial statements. A liability for these amounts, including related benefits, is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignations or retirements.

## NORTH HURON SCHOOLS

### NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016

#### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

##### **Other Accounting Policies: (Continued)**

##### **Long-term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as expenses/expenditures in the year in which they are incurred.

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

##### **Fund Balance**

The District implemented GASB Statement No. 54, “*Fund Balance Reporting and Governmental Fund Type Definitions*.” This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government’s fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

**Nonspendable fund balance** – amounts that are in nonspendable form (such as inventory or prepaid expenditures) or are either legally or contractually required to be maintained intact.

**Restricted fund balance** – amounts constrained to specific purposes by their providers (such as taxpayers, grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation. The District’s Library fund, Debt Service fund, Capital Projects fund and Food Service fund balances are considered restricted.

**Committed fund balance** – amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (Board of Education). To be reported as committed, amounts cannot be used for any other purpose unless the District takes the same highest level action to remove or change the constraint.

**Assigned fund balance** – amounts the District intends to use for a specific purpose. Intent can be expressed by the Board of Education or by an official or body to which the Board of Education delegates the authority.

**Unassigned fund balance** – amounts that are available for any purpose. Positive amounts are reported only in the general fund.

The District would typically use restricted fund balance first, followed by committed resources, and then assigned resources as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these classified funds.

# NORTH HURON SCHOOLS

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016

### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

#### **Other Accounting Policies: (Continued)**

##### **Prior Period Adjustment:**

The state requires the residual amount of an annexed school district's fund equity to be entered as a prior period adjustment. The general fund amounted to \$300,967 and the debt service fund \$40,518.

##### **Property Taxes**

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

For the year ended June 30, 2016, the District levied the following amounts per \$1,000 of assessed valuation:

<b><u>Fund</u></b>	<b><u>Mills</u></b>
General Fund:	
Non-Principal Resident Exemption (PRE)	18.000
Commercial Personal Property	6.000
Debt service fund:	
PRE, Non-PRE, Commercial Personal Property – North Huron	2.540
PRE, Non-PRE, Commercial Personal Property – Port Hope	2.950

##### **Use of Estimates:**

The process of preparing financial statements in conformity with U.S. GAAP requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated accounts.

### **NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:**

Annual budgets are adopted on a basis consistent with U.S. GAAP for the general fund and special revenue funds. The capital projects funds are appropriated on a project-length basis. Other funds do not have appropriated budgets.

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

## NORTH HURON SCHOOLS

### NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016

#### **NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY: (CONTINUED)**

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

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The Board of Education requires that the budget be submitted in summary form. In addition, more detailed line item budgets are included for administrative control. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comment.
3. Prior to July 1, the budget is legally enacted by a School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
4. Formal budgetary integration is employed as a management control device during the year for the General, Debt Service, Library and Food Service Funds.
5. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2016.

The School District incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated.

	<b><u>Budget</u></b>	<b><u>Actual</u></b>	<b><u>Variance</u></b>
General Fund:			
Instructional:			
Secondary	\$1,107,018	\$1,109,847	\$2,829

# NORTH HURON SCHOOLS

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016

### **NOTE 3 – DEPOSITS AND INVESTMENTS:**

A reconciliation of cash and investments as shown on the Statement of Net Position and Statement of Fiduciary Net Position follows:

#### **Statement of Net Position**

Government-wide Financial Statement Captions:

Cash and deposits	\$ 968,359
Investments	1,279,090

#### **Statement of Fiduciary Net Position**

Cash and deposits	<u>87,216</u>
Total	<u>\$2,334,665</u>

#### **Notes to Financial Statements:**

Deposits	\$ 1,055,555
Cash on hand	20
Investments	<u>1,279,090</u>
Total	<u>\$2,334,665</u>

As of June 30, 2016, the District had the following investments:

<b><u>INVESTMENT TYPE</u></b>	<b><u>FAIR VALUE</u></b>	<b><u>MATURITIES</u></b>
MILAF + Cash Management Class	\$ 5,136	N/A
MILAF + MAX Class	<u>1,273,954</u>	N/A
Total fair value	<u>\$1,279,090</u>	

The District voluntarily invests certain excess funds in external pooled investment funds which included money market funds. One of the pooled investment funds utilized by the District is the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external pooled investment fund of “qualified” investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports as of June 30, 2016, the fair value of the District's investments is the same as the value of the pool shares.

MILAF investments, as defined by the GASB, are recorded at amortized cost which approximates fair value. The MILAF (MAX Class) fund requires notification of redemptions prior to 14 days to avoid penalties. These funds are not subject to the fair value disclosures.

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



## NORTH HURON SCHOOLS

### NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016

#### **NOTE 3 – DEPOSITS AND INVESTMENTS: (CONTINUED)**

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

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

**Custodial credit risk – deposits.** In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2016, \$278,187 of the District's bank balance of \$1,107,650 was exposed to custodial credit risk because it was uninsured and uncollateralized. The carrying amount is \$1,055,555.

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

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

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

#### **NOTE 4 - INTERFUND RECEIVABLES AND PAYABLES:**

<b><u>FUND</u></b>	<b><u>INTERFUND RECEIVABLE</u></b>	<b><u>INTERFUND PAYABLE</u></b>
General Fund	\$138,735	\$158,729
Food Service	158,691	138,694
Debt Service	39	41
<b>TOTAL</b>	<b><u>\$297,464</u></b>	<b><u>\$297,464</u></b>

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

# NORTH HURON SCHOOLS

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016

### **NOTE 5 - RECEIVABLES:**

Receivables at June 30, 2016 from other governmental units consist of the following:

Governmental units:	
State revenue	\$403,368
Federal revenue	58,896
Other	<u>93,147</u>
Total	<u>\$555,411</u>

Amounts due from governmental units include amounts due from federal, state and local sources for various projects and programs.

Because of the District's favorable collection experience, no allowance for uncollectible accounts has been recorded.

### **NOTE 6 – CAPITAL ASSETS:**

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

	<b><u>BALANCE</u></b> <b><u>JUNE 30, 2015</u></b>	<b><u>ADDITIONS</u></b>	<b><u>DISPOSALS</u></b>	<b><u>BALANCE</u></b> <b><u>JUNE 30, 2016</u></b>
Assets not being depreciated-Land	\$ <u>20,300</u>	\$ _____	\$ _____	\$ <u>20,300</u>
Capital assets, being depreciated:				
Buildings and additions	12,454,630	148,721	-	12,603,351
Furniture and equipment	528,645	170,080	-	698,725
Transportation equipment	<u>630,192</u>	<u>-</u>	<u>-</u>	<u>630,192</u>
Subtotal	<u>13,613,466</u>	<u>318,801</u>	<u>-</u>	<u>13,932,268</u>
Accumulated depreciation:				
Buildings and additions	5,722,143	210,606	-	5,932,749
Furniture and equipment	451,209	27,154	-	478,363
Transportation equipment	<u>439,982</u>	<u>26,084</u>	<u>-</u>	<u>466,066</u>
Subtotal	<u>6,613,334</u>	<u>263,844</u>	<u>-</u>	<u>6,877,178</u>
Net capital assets	<u>\$ 7,020,432</u>	<u>\$ 54,957</u>	<u>\$ -</u>	<u>\$ 7,075,389</u>

Depreciation expense was charged to programs of the primary government as follows:

Instruction	\$134,743
Support Services	110,749
Athletics	3,347
Unallocated	<u>15,005</u>
Total depreciation	<u>\$263,844</u>

# NORTH HURON SCHOOLS

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016

### **NOTE 7 - LONG-TERM DEBT:**

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

#### **Port Hope Debt**

2015 refunding bonds due in annual installments of \$210,000 to \$230,000 through May 2024 with interest between 2.0% and 3.0%	\$1,745,000
Premium on refunding bonds	42,437

#### **North Huron Debt**

2005 refunding bonds due in annual installments of \$470,000 to \$685,000 through May 1, 2018 with interest between 3.5% and 5.0%	1,345,000
Premium on refunding bonds	27,675
2014 School Technology Bonds due in annual installments of \$25,000 to \$240,000, starting May 1, 2017 through May 1, 2021 with net interest of 2.20% by maturity	<u>750,000</u>
Total general obligation bonds	3,910,112
Obligation under contract for compensated absences	<u>131,020</u>
Total general long-term debt	<u>\$4,041,132</u>

Interest expense (all funds) for the year ended June 30, 2016 was approximately \$124,000.

In prior years, the District has defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. At June 30, 2016, \$5,705,000 of bonds outstanding are considered defeased.

The following is a summary of the debt transactions of the District for the year ended June 30, 2016:

	<b><u>BALANCE JUNE 30, 2015</u></b>	<b><u>ADDITIONS</u></b>	<b><u>PAYMENTS</u></b>	<b><u>BALANCE JUNE 30, 2016</u></b>	<b><u>DUE WITHIN ONE YEAR</u></b>
<b><u>Port Hope</u></b>					
2015 refunding bonds	\$1,960,000	\$ -	\$215,000	\$1,745,000	\$215,000
Premium on bonds	47,334	-	4,897	42,437	4,897
<b><u>North Huron</u></b>					
2005 refunding bonds	1,980,000	-	635,000	1,345,000	660,000
2014 school tech bonds	750,000	-	-	750,000	25,000
Premium on bonds	41,512	-	13,837	27,675	13,837
Compensated absences	<u>101,556</u>	<u>29,464</u>	-	<u>131,020</u>	-
Totals	<u>\$4,880,402</u>	<u>\$29,464</u>	<u>\$868,734</u>	<u>\$4,041,132</u>	<u>\$918,734</u>

(Continued)

# NORTH HURON SCHOOLS

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016

### **NOTE 7 - LONG-TERM DEBT: (CONTINUED)**

The annual requirements to amortize long-term debt outstanding as of June 30, 2016, including interest are as follows:

<b>Years ending June 30,</b>	<b><u>Port Hope</u></b>		<b><u>North Huron</u></b>		<b><u>Total</u></b>
	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	
2017	\$ 215,000	\$ 37,000	\$ 685,000	\$ 69,806	\$1,006,806
2018	215,000	32,700	715,000	43,156	1,005,856
2019	215,000	28,400	225,000	15,336	483,736
2020	215,000	24,100	230,000	11,060	480,160
2021	220,000	19,800	240,000	6,000	485,800
2022-2026	665,000	32,600	-	-	697,600
Premium on bonds	42,437	-	27,675	-	70,112
Compensated absences	-	-	131,020	-	131,020
<b>Totals</b>	<b><u>\$1,787,437</u></b>	<b><u>\$174,600</u></b>	<b><u>\$2,253,695</u></b>	<b><u>\$145,358</u></b>	<b><u>\$4,361,090</u></b>

### **NOTE 8 – RETIREMENT AND POST RETIREMENT BENEFIT:**

#### **Plan Description**

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

#### **Benefits Provided**

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

<b><u>Plan Name</u></b>	<b><u>Plan Type</u></b>	<b><u>Plan Status</u></b>
Basic	Defined benefit	Closed
Member Investment Plan (MIP)	Defined benefit	Closed
Pension Plus	Hybrid	Open
Defined Contribution	Defined Contribution	Open

Benefit provisions of the defined pension plan are established by state statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Retirement benefits for DB plan members are determined by final average compensation and years of service. DB plan 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.

(Continued)

## NORTH HURON SCHOOLS

### NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016

#### **NOTE 8 – RETIREMENT AND POST RETIREMENT BENEFIT: (CONTINUED)**

##### **Benefits Provided (Continued)**

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

##### **Pension Reform 2010**

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

##### **Pension Reform 2012**

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

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

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

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

## **NORTH HURON SCHOOLS**

### **NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016**

#### **NOTE 8 – RETIREMENT AND POST RETIREMENT BENEFIT: (CONTINUED)**

##### **Pension Plus**

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

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

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

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

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

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

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

##### **Member Contributions**

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

##### **Employer Contributions**

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

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under the 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.

## NORTH HURON SCHOOLS

### NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016

#### **NOTE 8 – RETIREMENT AND POST RETIREMENT BENEFIT: (CONTINUED)** **Employer Contributions (Continued)**

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

March 10, 2015 – September 30, 2015	18.76% - 23.07%
October 1, 2015 – September 30, 2016	14.56% - 18.95%

The District's pension contributions for the year ended June 30, 2016 were equal to the required contribution total. Pension contributions were approximately \$749,454 with \$524,549 specifically for the Defined Benefit Plan. These amounts include contributions funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate (69.45% for pension and 35.05% for OPEB).

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

##### **Pension Liabilities**

At June 30, 2016, the District reported a liability of \$5,829,025 for its proportionate share of the 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 date of September 30, 2014 and rolled-forward using generally accepted actuarial procedures. The District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2015 and 2014, the District's proportion was .02387 and .02132 percent.

<u>MPSERS (Plan) Non-university employers:</u>	<u>September 30, 2015</u>	<u>September 30, 2014</u>
Total pension liability	\$ 66,312,041,902	\$ 65,160,887,182
Plan fiduciary net position	\$ 41,887,015,147	\$ 43,134,384,072
Net pension liability	\$ 24,425,026,755	\$ 22,026,503,110
Proportionate share	0.02387	0.02131
Net pension liability for the District	\$ 5,829,025	\$ 4,695,506

For the year ended June 30, 2016, the District recognized pension expense of \$620,350. This amount excludes contributions funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate. These amounts have been recorded as a deferred outflow as of June 30, 2016.

# NORTH HURON SCHOOLS

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016

### **NOTE 8 – RETIREMENT AND POST RETIREMENT BENEFIT: (CONTINUED)**

#### **Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)**

At June 30, 2016, the Reporting Unit reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b><u>Deferred Outflows of Resources</u></b>	<b><u>Deferred (Inflows) of Resources</u></b>
Difference between expected and actual experience	\$ -	\$(19,307)
Change in assumptions	143,523	-
Net difference between projected and actual earnings on pension plan investments	29,752	-
Changes in proportion and differences between Reporting Unit contributions and proportionate share of contributions	474,690	(287)
Reporting Unit's contributions subsequent to the measurement date	546,166	-
Totals	<u>\$1,194,131</u>	<u>\$(19,594)</u>

\$546,166 reported as deferred outflows of resources related to pensions resulting from District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

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

<b><u>Years ended June 30,</u></b>	<b><u>Amount</u></b>
2016	\$144,029
2017	\$144,029
2018	\$136,247
2019	\$204,066



## NORTH HURON SCHOOLS

### NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016

#### **NOTE 8 – RETIREMENT AND POST RETIREMENT BENEFIT: (CONTINUED)** **Actuarial Assumptions**

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

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

**Inflation** – 2.5%

**Mortality assumptions** –RP-2000 Combined Healthy Mortality Table, adjusted for mortality improvements to 2020 using projection scale AA for men and women were used.

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

**The long-term expected rate of return on pension plan investments** – The rate of 8% (7% for Pension Plus Plan) net of investment and administrative expenses was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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

<b><u>Investment Category</u></b>	<b><u>Target Allocation</u></b>	<b><u>Long-term Expected Real Rate of Return*</u></b>
Domestic Equity Pools	28.00%	5.90%
Alternate Investment Pools	18.00%	9.20%
International Equity	16.00%	7.20%
Fixed Income Pools	10.50%	.90%
Real Estate and Infrastructure Pools	10.00%	4.30%
Absolute Return Pools	15.50%	6.00%
Short Term Investment Pools	2.00%	0.00%
	<u>100.00%</u>	

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

## NORTH HURON SCHOOLS

### NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016

#### **NOTE 8 – RETIREMENT AND POST RETIREMENT BENEFIT: (CONTINUED)** **Actuarial Assumptions (Continued)**

**Discount rate** – The discount rate used to measure the total pension liability was 8% (7% for Pension Plus Plan). The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from school districts will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

#### **Sensitivity of the net pension liability to changes in the discount rate**

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

	<b><u>1% Lower</u></b> <b><u>(6% - 7.0%)</u></b>	<b><u>Discount rate</u></b> <b><u>(7% - 8.0%)</u></b>	<b><u>1% Higher</u></b> <b><u>(8% - 9.0%)</u></b>
Reporting Unit's proportionate share of the net pension liability	<u>\$7,515,108</u>	<u>\$5,829,025</u>	<u>\$4,407,589</u>

#### **Pension Plan Fiduciary Net Position**

Detailed information about the pension plan's fiduciary net position is available in the separately issued Michigan Public School Employees Retirement System 2015 Comprehensive Annual Financial Report.

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

## **NORTH HURON SCHOOLS**

### **NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016**

#### **NOTE 8 – RETIREMENT AND POST RETIREMENT BENEFIT: (CONTINUED)**

##### **Benefit Provisions – Other Postemployment**

###### ***Introduction***

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

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

###### ***Retiree Healthcare Reform of 2012***

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

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

## NORTH HURON SCHOOLS

### NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016

#### **NOTE 8 – RETIREMENT AND POST RETIREMENT BENEFIT: (CONTINUED)** **Benefit Provisions – Other Postemployment (Continued)**

##### ***Employer Contributions***

The employer contribution rate ranged from 5.52% - 6.45% of covered payroll for the period October 1, 2013 to March 9, 2015, 2.20% - 2.71% of covered payroll for the period from March 10, 2015 to September 30, 2015, and from 6.40% - 6.83% of covered payroll for the period from October 1, 2015 through June 30, 2016 dependent upon the employee's date of hire and plan election.

The District's postemployment healthcare contributions to MPSERS for the years ended June 30, 2016, 2015 and 2014 were approximately \$156,752, \$57,401 and \$127,542.

#### **NOTE 9 - OPERATING LEASES:**

The School District is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore, the unpaid balances of the lease agreements are not reflected in the School District's long-term debt.

The following is a schedule by year of future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2016.

<b><u>Years ending</u></b>	<b><u>Amounts</u></b>
<b><u>June 30,</u></b>	
2017	\$12,480
2018	<u>2,080</u>
<b>Total minimum payments required</b>	<b><u>\$14,560</u></b>

#### **NOTE 10 - CONTINGENT LIABILITY:**

The District is a reimbursing employer for purposes of unemployment insurance claims against the District. The District reimburses the State of Michigan for all benefits charged against it in the event of termination of employment and subsequent claims of its employees. The contingent liability for unemployment insurance claims is not recognized in the accompanying financial statements. This expense is recognized as incurred.

The surrounding townships and counties are part of the Michigan Renewable Energy Collaborative (MREC). Certain wind energy companies are contesting the assessed taxable value of wind turbines. If the wind companies are successful in their claim then local governments would have to return tax dollars to these companies. The MREC was formed to fight the legal challenge and share legal costs related to the wind tax value determinations. The wind turbine companies have made tax appeals to the Michigan Tax Tribunal in several townships where they have wind turbines. Due to the inconclusive nature, it is not possible for Legal Counsel to determine the probable outcome or a reasonable estimate of the District's potential liability, if any.

## **NORTH HURON SCHOOLS**

### **NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016**

#### **NOTE 11 - RISK MANAGEMENT:**

##### **General Liability**

The School District participates in the MASB-SEG Property/Casualty Pool, Inc. for the coverage of significant losses due to its general liability. The participation in the pool constitutes transfer of the risk for significant losses with a limit of \$5 million per occurrence for real and personal property losses and a limit of \$5 million in the aggregate for personal injury. For automotive liability, the pool constitutes transfer of the risk with a limit of \$5 million for bodily injury and property damage combined. For excess liability, there is a limit of \$1 million for each occurrence. The School District is required to pay an annual premium to the MASB-SEG Property/Casualty Pool, Inc. for the liability coverage. There have been no significant reductions in insurance coverage and settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

##### **Worker's Compensation**

The School District is insured through SET/SEG Workers Compensation Disability Compensation for losses related to workers' compensation claims.

##### **Employee Health Care**

The School District uses HealthPlus for health insurance coverage for its employees and their dependents.

#### **NOTE 12 – UPCOMING ACCOUNTING STANDARDS:**

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

GASB Statement No. 77, *Tax Abatement Disclosures*, was issued for the GASB in August 2015 and will be effective for the District's 2017 fiscal year. This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements: 1) brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients; 2) the gross dollar amount of taxes abated during the period; 3) the commitments made by a government, other than to abate taxes, as part of a tax abatement agreement. The requirements of this Statement improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**NORTH HURON SCHOOLS**

**REQUIRED SUPPLEMENTARY INFORMATION**

**BUDGETARY COMPARISON SCHEDULE**

**GENERAL FUND**

**FOR THE YEAR ENDED JUNE 30, 2016**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET</u>
<b>REVENUE:</b>				
Local sources:				
Taxes	\$ 2,714,718	\$ 2,692,249	\$ 2,692,249	\$ -
Interest	1,250	3,532	4,201	669
Athletic activities	54,510	44,231	44,331	100
Other local revenue	346,800	371,464	374,126	2,661
Total local sources	3,117,278	3,111,475	3,114,906	3,430
State sources	1,365,929	1,242,330	1,250,655	8,324
Federal sources	151,500	211,168	192,953	(18,215)
<b>TOTAL REVENUE</b>	<u>4,634,707</u>	<u>4,564,974</u>	<u>4,558,513</u>	<u>(6,460)</u>
<b>EXPENDITURES:</b>				
Instruction				
Pre-kindergarten	-	15,214	12,999	2,215
Elementary	1,017,213	977,545	973,091	4,453
Secondary	1,210,099	1,107,018	1,109,847	(2,829)
Compensatory education	225,492	329,613	298,582	31,031
Vocational education	83,997	90,560	89,363	1,197
Special education	<u>367,962</u>	<u>372,939</u>	<u>372,042</u>	<u>898</u>
Total instruction	<u>2,904,763</u>	<u>2,892,888</u>	<u>2,855,924</u>	<u>36,965</u>
Supporting services				
Truance/absenteeism services	1,500	937	937	-
Guidance services	53,870	54,375	54,305	70
Health services	300	-	-	-
Other pupil support services	6,800	6,800	6,793	7
Academic student assessment	7,086	2,385	2,385	-
Improvement of instruction	35,940	53,401	50,871	2,530
Library	12,444	5,171	5,171	-
Instructional related technology	31,487	39,667	39,446	221
Supervision and direction of instructional staff	30,740	30,740	30,740	-
Board of education	36,904	51,016	48,641	2,375
Executive and administration	204,017	231,560	229,511	2,049
School administration	335,138	344,958	343,945	1,012
Fiscal services	87,337	92,610	92,527	83
Internal services	4,000	4,000	3,839	161
Other business services	7,300	4,316	4,316	-
Non-instructional technology support	47,001	51,535	51,223	312
Pupil accounting	18,535	19,690	19,599	91
Operation and maintenance of plant	399,932	437,868	430,181	7,687
Pupil transportation	270,796	273,631	270,934	2,697
Athletics	<u>169,884</u>	<u>178,386</u>	<u>178,089</u>	<u>297</u>
Total supporting services	<u>1,761,010</u>	<u>1,883,045</u>	<u>1,863,452</u>	<u>19,593</u>
Community services	<u>6,974</u>	<u>10,607</u>	<u>9,209</u>	<u>1,398</u>
<b>TOTAL EXPENDITURES</b>	<u>4,672,747</u>	<u>4,786,541</u>	<u>4,728,584</u>	<u>57,957</u>

**NORTH HURON SCHOOLS**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET</u>
<b>EXCESS OF REVENUE OVER (UNDER) EXPENDITURES</b>	<u>(38,040)</u>	<u>(221,567)</u>	<u>(170,071)</u>	<u>51,496</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Sale of capital assets	1,120	5,506	5,506	-
Prior period adjustment	<u>-</u>	<u>-</u>	<u>300,967</u>	<u>300,967</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	1,120	5,506	306,473	300,967
<b>EXCESS OF REVENUE AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	<u>(36,920)</u>	<u>(216,061)</u>	<u>136,401</u>	<u>352,463</u>
<b>FUND BALANCE - JULY 1</b>	1,599,527	1,599,527	1,599,527	-
<b>FUND BALANCE - JUNE 30</b>	<u>\$ 1,562,607</u>	<u>\$ 1,383,466</u>	<u>\$ 1,735,928</u>	<u>\$ 352,463</u>



# NORTH HURON SCHOOLS

## REQUIRED SUPPLEMENTARY INFORMATION BUDGETARY COMPARISON SCHEDULE FOOD SERVICE FUND FOR THE YEAR ENDED JUNE 30, 2016

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET</u>
<b>REVENUE:</b>				
Local sources:				
Student and adult lunches	\$ 72,800	\$ 80,853	\$ 80,704	\$ (149)
Miscellaneous	1,603	657	653	(4)
Total local sources	<u>74,403</u>	<u>81,510</u>	<u>81,357</u>	<u>(152)</u>
State sources	7,500	10,079	10,079	-
Federal sources:				
Reimbursements	150,200	144,006	144,006	-
Commodities	12,700	13,661	13,661	-
<b>TOTAL REVENUE</b>	<u>244,803</u>	<u>249,256</u>	<u>249,104</u>	<u>(152)</u>
<b>EXPENDITURES:</b>				
Salaries and wages	71,450	83,360	83,243	117
Employee benefits	47,241	52,395	51,480	915
Food	108,299	119,264	116,803	2,460
Supplies and equipment	31,230	4,893	4,298	595
Purchased services	2,500	2,532	2,532	-
Repairs	4,650	2,050	2,041	9
Miscellaneous	2,810	2,565	2,211	354
<b>TOTAL EXPENDITURES</b>	<u>268,179</u>	<u>267,059</u>	<u>262,610</u>	<u>4,449</u>
<b>EXCESS OF REVENUE OVER (UNDER) EXPENDITURES</b>	<u>(23,376)</u>	<u>(17,803)</u>	<u>(13,506)</u>	<u>4,297</u>
<b>FUND BALANCE - JULY 1</b>	76,112	76,112	76,112	-
<b>FUND BALANCE - JUNE 30</b>	<u>\$ 52,736</u>	<u>\$ 58,309</u>	<u>\$ 62,606</u>	<u>\$ 4,297</u>

## NORTH HURON SCHOOLS

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

	<u>2015</u>	<u>2014</u>
Reporting unit's proportion of net pension liability (%)	0.02387%	0.02132%
Reporting unit's proportionate share of net pension liability	\$ 5,829,025	\$ 4,695,506
Reporting unit's covered-employee payroll	\$ 2,014,400	\$ 1,991,568
Reporting unit's proportionate share of net pension liability as a percentage of its covered-employee payroll	289.37%	235.77%
Plan fiduciary net position as a percentage of total pension liability	63.17%	66.20%

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

## NORTH HURON SCHOOLS

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

	<u>2016</u>	<u>2015</u>
Statutorily required contributions	\$ 493,861	\$ 424,168
Contributions in relation to statutorily required contributions	493,861	424,168
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Reporting unit's covered-employee payroll	\$ 2,124,602	\$ 2,118,126
Contributions as a percentage of covered-employee payroll	23.24%	20.03%

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

**NORTH HURON SCHOOLS**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2016**

**Changes of benefit terms:** There were no changes of benefit terms in 2015

**Changes of assumptions:** There were no changes of benefit assumptions in 2015.

## **ADDITIONAL SUPPLEMENTARY INFORMATION**

# NORTH HURON SCHOOLS

## COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS JUNE 30, 2016

	<u><b>LIBRARY</b></u>	<u><b>CAPITAL PROJECTS</b></u>	<b>TOTAL NONMAJOR GOVERNMENTAL FUNDS</b>
<b><u>ASSETS</u></b>			
<b>CURRENT ASSETS:</b>			
Cash and deposits	\$       -	\$   78,615	\$   78,615
Investments	221,564	-	221,564
<b>TOTAL ASSETS</b>	<u><u>\$221,564</u></u>	<u><u>\$   78,615</u></u>	<u><u>\$ 300,179</u></u>
<b><u>LIABILITIES AND FUND EQUITY</u></b>			
<b>LIABILITIES:</b>			
Accounts payable	\$       -	\$   33,870	\$   33,870
<b>TOTAL LIABILITIES</b>	<u>-</u>	<u>33,870</u>	<u>33,870</u>
<b>FUND BALANCE</b>	221,564	44,745	266,309
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<u><u>\$221,564</u></u>	<u><u>\$   78,615</u></u>	<u><u>\$ 300,179</u></u>

# NORTH HURON SCHOOLS

## COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGE IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2016

	<u>LIBRARY</u>	<u>CAPITAL PROJECTS</u>	<u>TOTAL NONMAJOR GOVERNMENTAL FUNDS</u>
<b>REVENUE:</b>			
Local sources:			
Interest	\$ 565	\$ 207	\$ 772
<b>TOTAL REVENUE</b>	<u>565</u>	<u>207</u>	<u>772</u>
<b>EXPENDITURES:</b>			
Capital projects	-	323,663	323,663
<b>TOTAL EXPENDITURES</b>	-	323,663	323,663
<b>EXCESS OF REVENUE OVER (UNDER) EXPENDITURES</b>	<u>565</u>	<u>(323,456)</u>	<u>(322,891)</u>
<b>FUND BALANCE - JULY 1</b>	220,999	368,201	589,200
<b>FUND BALANCE - JUNE 30</b>	<u>\$ 221,564</u>	<u>\$ 44,745</u>	<u>\$ 266,309</u>

# NORTH HURON SCHOOLS

## COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGE IN FUND BALANCE - DEBT SERVICE FUNDS FOR THE YEAR ENDED JUNE 30, 2016

	<b><u>NORTH HURON DEBT FUND</u></b>	<b><u>PORT HOPE COMMUNITY SCHOOL DEBT FUND</u></b>	<b><u>TOTAL DEBT FUNDS</u></b>
<b><u>REVENUE:</u></b>			
Local sources:			
Taxes	\$ 726,144	\$ 252,180	\$ 978,324
Interest	502	96	597
<b>TOTAL REVENUE</b>	<u>726,646</u>	<u>252,276</u>	<u>978,922</u>
<b><u>EXPENDITURES:</u></b>			
Debt service:			
Principal repayment	635,000	215,000	850,000
Interest and fiscal charges	96,005	49,372	145,377
<b>TOTAL EXPENDITURES</b>	<u>731,005</u>	<u>264,372</u>	<u>995,377</u>
<b>EXCESS OF REVENUE OVER (UNDER) EXPENDITURES</b>	<u>(4,359)</u>	<u>(12,096)</u>	<u>(16,455)</u>
<b><u>OTHER FINANCING SOURCES (USES):</u></b>			
Prior period adjustment	-	40,518	40,518
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>-</u>	<u>40,518</u>	<u>40,518</u>
<b>EXCESS OF REVENUE AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	<u>(4,359)</u>	<u>28,422</u>	<u>24,063</u>
<b>FUND BALANCE - JULY 1</b>	122,891	-	122,891
<b>FUND BALANCE - JUNE 30</b>	<u>\$ 118,532</u>	<u>\$ 28,422</u>	<u>\$ 146,954</u>



**NORTH HURON SCHOOLS**

**SCHEDULE OF BONDED DEBT**

**2005 REFUNDING BOND DEBT**

**JUNE 30, 2016**

<b>Fiscal</b>					
<b>Years Ending</b>	<b>Interest</b>	<b>Interest due</b>		<b>Principal</b>	<b>Total due</b>
<b><u>June 30,</u></b>	<b><u>Rate</u></b>	<b><u>1-Nov</u></b>	<b><u>1-May</u></b>	<b><u>1-May</u></b>	<b><u>Annually</u></b>
2017	4.0%	\$ 26,900	\$ 26,900	\$ 660,000	\$ 713,800
2018	4.0%	13,700	13,700	685,000	712,400
Total		<u>\$ 40,600</u>	<u>\$ 40,600</u>	<u>\$ 1,345,000</u>	<u>\$ 1,426,200</u>

Bonds in the amount of \$5,705,000 were issued to refund a portion of the 1998 bond issue.

**NORTH HURON SCHOOLS**

**SCHEDULE OF BONDED DEBT**

**2014 SCHOOL TECHNOLOGY BONDS**

**JUNE 30, 2016**

<b>Fiscal</b>	<b>Interest</b>	<b>Interest due</b>		<b>Principal</b>	<b>Total due</b>
<b>Years Ending</b>	<b>Rate</b>	<b>1-Nov</b>	<b>1-May</b>	<b>1-May</b>	<b>Annually</b>
<b><u>June 30,</u></b>					
2017	2.134%	\$ 8,003	\$ 8,003	\$ 25,000	\$ 41,006
2018	2.173%	7,878	7,878	30,000	45,756
2019	2.200%	7,668	7,668	225,000	240,336
2020	2.353%	5,530	5,530	230,000	241,060
2021	2.500%	3,000	3,000	240,000	246,000
Total		<u>\$ 32,079</u>	<u>\$ 32,079</u>	<u>\$ 750,000</u>	<u>\$ 814,158</u>

Bonds in the amount of \$750,000 were issued for the purpose of technology improvements.

**NORTH HURON SCHOOLS  
PORT HOPE COMMUNITY SCHOOL DEBT**

**SCHEDULE OF BONDED DEBT  
2015 REFUNDING BONDS  
JUNE 30, 2016**

<b>Fiscal Years Ending <u>June 30,</u></b>	<b>Interest <u>Rate</u></b>	<b>Interest due</b>		<b>Principal <u>1-May</u></b>	<b>Total due <u>Annually</u></b>
		<b><u>1-Nov</u></b>	<b><u>1-May</u></b>		
2017	2.000%	\$ 18,500	\$ 18,500	\$ 215,000	\$ 252,000
2018	2.000%	16,350	16,350	215,000	247,700
2019	2.000%	14,200	14,200	215,000	243,400
2020	2.000%	12,050	12,050	215,000	239,100
2021	2.000%	9,900	9,900	220,000	239,800
2022	2.000%	7,700	7,700	225,000	240,400
2023	2.000%	5,450	5,450	230,000	240,900
2024	3.000%	3,150	3,150	210,000	216,300
Total		<u>\$ 87,300</u>	<u>\$ 87,300</u>	<u>\$ 1,745,000</u>	<u>\$ 1,919,600</u>

On February 24, 2015, a portion of the 2005 Refunding Bonds were refunded.

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

To the Board of Education  
North Huron Schools  
Kinde, 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 North Huron Schools, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise North Huron School's basic financial statements, and have issued our report thereon dated October 25, 2016.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered North Huron School's 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 North Huron School's internal control. Accordingly, we do not express an opinion on the effectiveness of North Huron School's internal control.

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

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

(Continued)

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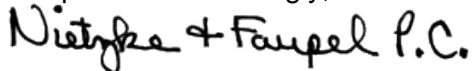
Any accounting, business or tax advice contained in this communication, including attachments and enclosures, is not intended as a thorough, in-depth analysis of specific issues, nor a substitute for a formal opinion, nor is it sufficient to avoid tax-related penalties.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether North Huron School's 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.



NIETZKE & FAUPEL, P.C.  
Pigeon, Michigan

October 25, 2016