

**NORTH HURON SCHOOLS  
KINDE, MICHIGAN**

**FINANCIAL STATEMENTS  
JUNE 30, 2017**

**NORTH HURON SCHOOLS**  
**TABLE OF CONTENTS**

	<b><u>PAGE NUMBER</u></b>
<b>INDEPENDENT AUDITOR’S REPORT</b>	i - iii
<b>MANAGEMENT’S DISCUSSION AND ANALYSIS</b>	iv - xi
<b>BASIC FINANCIAL STATEMENTS:</b>	
Government-wide financial statements	
Statement of net position	1 - 2
Statement of activities	3
Fund financial statements	
Balance sheet – Governmental funds	4
Reconciliation of governmental fund balances to governmental activities net position	5
Statement of revenue, expenditures and change in fund balance – Governmental funds	6
Reconciliation of the statement of revenue, expenditures and change in fund balance of governmental funds to the statement of activities	7
Fiduciary funds	
Statement of fiduciary net position	8
Notes to the financial statements	9 - 32
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
Budgetary comparison schedule – General fund	33 - 34
Budgetary comparison schedule – Food service fund	35
Schedule of the reporting unit’s proportionate share of the net pension liability	36

# NORTH HURON SCHOOLS

## TABLE OF CONTENTS

	<b><u>PAGE NUMBER</u></b>
Schedule of the reporting unit's contributions	37
Notes to required supplementary information	38
<b>ADDITIONAL SUPPLEMENTARY INFORMATION:</b>	
Combining balance sheet – Nonmajor governmental funds	39
Combining statement of revenue, expenditures and change in fund balances – Nonmajor governmental funds	40
Combining statement of revenue, expenditures and changes in fund balances – Debt service funds	41
Schedule of bonded debt	42 - 44
<b>INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i></b>	45 - 46

## **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, 2017, 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, 2017, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the 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 2, 2017, 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.

*Nietzke & Faupel P.C.*

NIETZKE & FAUPEL, P.C.  
Pigeon, Michigan

October 2, 2017

**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, 2017. 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 \$36,504.

The Food Service Fund showed expenditures exceeded revenue by \$2,234. This decreased the fund balance from \$62,606 to \$60,372.

In total, District revenues exceeded \$5.9 and \$6.0 million dollars for the fiscal years ended June 30, 2017 and 2016, respectively. Expenditures over the same time period were \$6.0 and \$6.3 million dollars for the fiscal years ended June 30, 2017 and 2016, respectively.

During the fiscal year 2017, the District retired \$900,000 of principal from its long-term debt.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

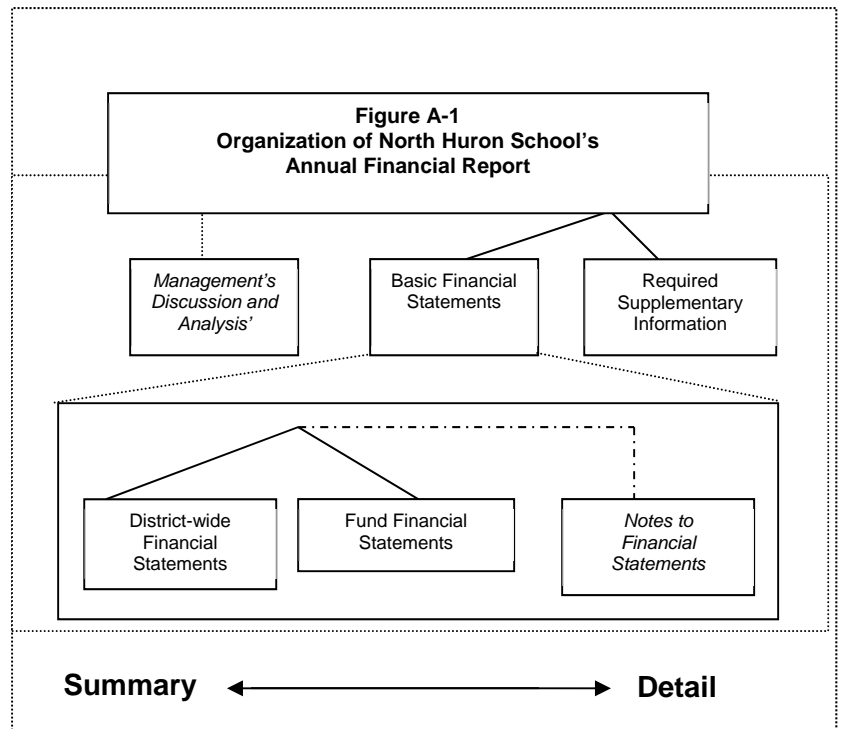
This annual report consists of three parts – management’s discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

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.

<b>Figure A-2 Major Features of District-Wide and Fund Financial Statements</b>			
	<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*.



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 decreased \$65,326 from \$393,757 to \$328,431 as of June 30, 2017. The District's decrease in financial position is the result of depreciation and pension liabilities.

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, 2017 and 2016.

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

	<u><b>2017</b></u>	<u><b>2016</b></u>
Current assets	\$2,635,495	\$2,822,578
Noncurrent assets	<u>6,832,057</u>	<u>7,075,388</u>
Total assets	<u>9,467,552</u>	<u>9,897,966</u>
 Deferred outflows of resources	 <u>1,464,320</u>	 <u>1,230,175</u>
 Current liabilities	 1,471,203	 1,597,315
Noncurrent liabilities	2,176,069	3,122,398
Net pension liability	<u>6,266,656</u>	<u>5,829,025</u>
Total liabilities	<u>9,913,928</u>	<u>10,548,738</u>
 Deferred inflows of resources	 <u>689,513</u>	 <u>185,646</u>
 Net position:		
Net investment in capital assets	3,869,038	3,243,892
Restricted	338,422	409,870
Unrestricted	<u>(3,879,029)</u>	<u>(3,260,005)</u>
Total net position	<u>\$ 328,431</u>	<u>\$ 393,757</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, 2017 and 2016.

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

	<u>2017</u>	<u>2016</u>
Revenues		
Program revenues		
Charges for services	\$ 116,563	\$ 134,299
Federal and state categorical grants	1,385,443	1,200,855
General revenues		
Property taxes	3,735,614	3,670,573
State sources	669,267	678,116
Other	76,285	450,458
Total revenues	<u>5,983,172</u>	<u>6,134,301</u>
Expenses		
Instruction	3,558,627	3,121,909
Support services	2,112,392	2,060,306
Community services	27,040	9,209
Food services	248,463	262,610
Interest on long-term debt	88,372	123,328
Depreciation - Unallocated	13,604	15,005
Total expenses	<u>6,048,498</u>	<u>5,592,366</u>
Change in net position	(65,326)	541,935
Net position, beginning of year	393,757	1,828,360
Adjustment for Port Hope Community School annexation	-	(1,976,538)
Net position, end of year	<u>\$ 328,431</u>	<u>\$ 393,757</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 \$2,155,566. This is a decrease of \$(56,231) from the previous year primarily from an increase in employee salary and benefits.

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

- The District continues to contract with a third party provider for supporting services as well as student transportation services.
- Full-time equivalent students enrolled in the District increased from 442.77 (October 2016) to 447.62 (February 2017 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 36.64% to 32.66% of qualified wages in 2016-17. 11.70% of this cost was offset by State categorical revenues.

(Continued)

## FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

### General Fund and Budget Highlights

During the 2017 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 \$20,460 greater than revenues and other financing sources. Final results showed that revenues were \$25,084 less than anticipated, and expenditures were \$82,048 less than anticipated. The net result after other financing sources and (uses) was a change in the fund balance of \$36,504, increasing the fund balance to \$1,772,432. This is approximately 37% of the annual general fund expenditures.

Overall, the difference between the District's final amended budget and end of the year figures amounted to a \$56,964 variance. The variance was primarily due to less expenditures than expected.

### Food Service Fund

Local revenue decreased \$6,876; Federal reimbursements increased \$10,557 and state reimbursements increased \$3,026. Overall revenue was an increase of \$6,707 from 2016.

On the expenditure side, food cost increased \$7,094, and wages and employee benefits decreased \$20,387. The overall change in expenditures was a decrease of \$14,147 over 2016.

### Capital Projects Fund

The District has substantially completed its projects with regard to the 2014 School Technology Bonds.

### Debt Service Fund

Property taxes decreased \$7,134. Principal payments increased \$50,000. Interest and fiscal charges decreased \$37,272. Overall the fund balance decreased \$36,152 from 2016. Additional information can be found in the combining statements on page 41.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

The District added \$27,634 in capital assets during the fiscal year. There were no capital asset disposals in 2016-2017.

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

	<u>2017</u>	<u>2016</u>
Land	\$ 20,300	\$ 20,300
Buildings and additions	6,455,485	6,670,602
Furniture and equipment	216,831	220,362
Transportation equipment	139,441	164,126
Totals	<u>\$6,832,057</u>	<u>\$7,075,390</u>

(Continued)

### Long-term Debt

At year end, the District had over \$3.1 million in general obligation bonds and other long-term debt outstanding. During fiscal year 2017, the District repaid \$900,000 in principal. Included in long-term debt is the Port Hope Community School 2015 Refunding Bonds in the amount of \$1,530,000. The long-term debt consisted of the following:

	<u>2017</u>	<u>2016</u>
<u>Port Hope debt:</u>		
General obligation bonds (financed with property taxes)	\$ 1,567,540	\$ 1,787,437
<u>North Huron debt:</u>		
General obligation bonds (financed with property taxes)	1,423,838	2,122,675
Compensated absences	<u>138,322</u>	<u>131,020</u>
Totals	<u>\$3,129,700</u>	<u>\$4,041,132</u>

### FACTORS BEARING ON THE DISTRICT'S FUTURE

- The foundation allowance for the District for 2017-18 school year will be \$7,783, up \$112 from the previous year. Although At-Risk funding will be increased, the Federal Title I and Title II programs have been reduced substantially.
- Student enrollment for 2017-18 is projected to be 425, which is a decrease of 22 students from the prior spring count.
- To attract new students to the District, North Huron contracted with the local Intermediate School District to house a Great Start Readiness Program beginning with the 2016-17 school year. An Early Learning Center-Day Care was also added in June of 2017 and initial participation has been positive.
- The District's 2005 Debt Retirement Refunding Bond is scheduled for final payment in May of 2018. The District has authorized a school bond proposal to be put on the November 2017 ballot. The new proposal is for \$8.2 million for 11 years. If approved, part of the bond will be used to expand the agriculture program and the manufacturing & robotics labs.
- Retirement contributions will have a new average rate of 34.51% of salaries, effective October 1, 2017, with 11.32% of this cost expected to be offset by State categorical revenues.
- The District has been filing Protective Claims via Form 941-X for FICA withheld on the 3% Healthcare Portion of Michigan Public School Employee Retirement System beginning with 2010. While the mandatory withholding portion is still in the court system, the IRS has starting issuing refunds for FICA tax withheld on the 3% Healthcare Portion that employees "elected" to have withheld beginning Feb 2013. The District has received two refund checks thus far. The remainder of the 941-X forms will be filed and the corresponding monies will be refunded to the employees with the matching district portion credited to the district in the ensuing year.

## **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, 2017**

	<b>GOVERNMENTAL ACTIVITIES</b>
<b>ASSETS:</b>	
Cash and deposits	\$ 813,619
Investments	1,330,462
Receivables:	
Accounts receivable	3,904
Due from other governmental units	433,170
Inventory	3,007
Prepaid expenses	22,974
Restricted cash - capital projects	28,359
Nondepreciated capital assets	20,300
Depreciated capital assets	13,959,902
Less: Accumulated depreciation	(7,148,145)
<b>TOTAL ASSETS</b>	<u>9,467,552</u>
 <b>DEFERRED OUTFLOWS OF RESOURCES:</b>	
Deferred charge on bond refunding	31,885
Related to pensions	1,432,435
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<u>1,464,320</u>



**NORTH HURON SCHOOLS**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2017**

	<b>GOVERNMENTAL ACTIVITIES</b>
<b>LIABILITIES:</b>	
Accounts payable	\$ 45,461
Due to other governmental units	48,959
Salaries payable	248,143
Voluntary incentive pay	25,000
Accrued employee benefits	58,159
Accrued FICA payable	18,659
Accrued interest payable	12,643
Accrued expenses	51,974
Unearned revenue	8,574
Noncurrent liabilities:	
Due within one year	953,631
Due in more than one year	2,176,069
Net pension liability	6,266,656
<b>TOTAL LIABILITIES</b>	<b>9,913,928</b>
 <b>DEFERRED INFLOWS OF RESOURCES:</b>	
Related to pensions	493,357
Related to state aid funding for pensions	196,156
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>689,513</b>
 <b>NET POSITION:</b>	
Net investment in capital assets	3,869,038
Restricted for:	
Debt service	98,159
Library fund	183,361
Food service	56,902
Unrestricted	(3,879,029)
<b>TOTAL NET POSITION</b>	<b>\$ 328,431</b>

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

**NORTH HURON SCHOOLS**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2017**

<b>FUNCTIONS/PROGRAMS</b>	<b>EXPENSES</b>	<b>PROGRAM REVENUE</b>		<b>GOVERNMENTAL ACTIVITIES</b>
		<b>CHARGES FOR SERVICES</b>	<b>OPERATING GRANTS AND CONTRIBUTIONS</b>	<b>NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION</b>
<b>Governmental activities:</b>				
Instruction	\$ 3,558,627	\$ 4,269	\$ 1,184,212	\$ (2,370,146)
Support services	2,112,392	37,053	19,901	(2,055,438)
Community services	27,040	801	-	(26,239)
Food service	248,463	74,440	181,330	7,307
Interest on long-term obligations	88,372	-	-	(88,372)
Depreciation - Unallocated	13,604	-	-	(13,604)
<b>Total governmental activities:</b>	<u>\$ 6,048,498</u>	<u>\$ 116,563</u>	<u>\$ 1,385,443</u>	<u>(4,546,492)</u>
<b>General revenues:</b>				
Property taxes, levied for general purposes				2,764,424
Property taxes, levied for debt service				971,190
State sources				669,267
Investment earnings				9,987
Sale of assets				400
Miscellaneous				65,898
<b>Total general revenues</b>				<u>4,481,166</u>
<b>CHANGE IN NET POSITION</b>				<u>(65,326)</u>
<b>NET POSITION, beginning of year</b>				393,757
<b>NET POSITION, end of year</b>				<u>\$ 328,431</u>

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

**NORTH HURON SCHOOLS**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2017**

	<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	\$ 683,601	\$ 18,357	\$ 111,661	\$ -	\$ 813,619
Restricted cash	-	-	-	28,359	28,359
Investments	1,107,301	-	-	223,161	1,330,462
Accounts receivable	2,358	744	-	802	3,904
Due from other governmental units	431,289	1,881	-	-	433,170
Due from other funds	141,134	166,319	-	23,300	330,753
Inventory	-	3,007	-	-	3,007
Prepaid expenditures	22,511	463	-	-	22,974
<b>TOTAL ASSETS</b>	<b><u>\$ 2,388,194</u></b>	<b><u>\$ 190,771</u></b>	<b><u>\$ 111,661</u></b>	<b><u>\$ 275,622</u></b>	<b><u>\$ 2,966,248</u></b>
<b><u>LIABILITIES AND FUND BALANCES</u></b>					
<b>LIABILITIES:</b>					
Accounts payable	\$ 24,747	\$ -	\$ -	\$ 20,714	\$ 45,461
Due to other funds	166,319	120,627	859	42,948	330,753
Due to other governments	48,959	-	-	-	48,959
Salaries payable	242,759	5,384	-	-	248,143
Accrued employee benefits	56,700	1,459	-	-	58,159
Accrued FICA payable	18,247	412	-	-	18,659
Accrued interest payable	-	-	-	-	-
Accrued expenses	49,457	2,517	-	-	51,974
Note payable	-	-	-	-	-
Unearned revenue	8,574	-	-	-	8,574
<b>TOTAL LIABILITIES</b>	<b><u>615,762</u></b>	<b><u>130,399</u></b>	<b><u>859</u></b>	<b><u>63,662</u></b>	<b><u>810,682</u></b>
<b>FUND BALANCES:</b>					
Nonspendable:					
Inventory	-	3,007	-	-	3,007
Prepaid expenditures	22,511	463	-	-	22,974
Restricted for:					
Food service	-	56,902	-	-	56,902
Debt service	-	-	110,802	-	110,802
Community service	-	-	-	240	240
Library	-	-	-	183,361	183,361
Capital projects	-	-	-	28,359	28,359
Assigned for:					
Subsequent year expenditures	26,440	-	-	-	26,440
Unassigned	1,723,481	-	-	-	1,723,481
<b>TOTAL FUND BALANCES</b>	<b><u>1,772,432</u></b>	<b><u>60,372</u></b>	<b><u>110,802</u></b>	<b><u>211,960</u></b>	<b><u>2,155,566</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u>\$ 2,388,194</u></b>	<b><u>\$ 190,771</u></b>	<b><u>\$ 111,661</u></b>	<b><u>\$ 275,622</u></b>	<b><u>\$ 2,966,248</u></b>

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

**NORTH HURON SCHOOLS**

**RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO  
GOVERNMENTAL ACTIVITIES NET POSITION  
JUNE 30, 2017**

**TOTAL GOVERNMENTAL FUND BALANCES** \$ 2,155,566

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

Deferred outflows of resources - related to pensions	1,432,435
Deferred charge on bond refunding	31,885
Deferred inflows of resources - related to pensions	(493,357)
Deferred inflows of resources - related to state aid	(196,156)

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	\$ 13,980,202	
Accumulated depreciation is	<u>(7,148,145)</u>	6,832,057

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	\$ 2,940,000	
Compensated absences	138,322	
Voluntary incentive pay	25,000	
Net pension liability	6,266,656	
Accrued interest payable	<u>12,643</u>	(9,382,621)

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	\$ (228,850)	
Less: Amortization of bond premium	<u>177,472</u>	(51,378)

**NET POSITION - GOVERNMENTAL ACTIVITIES** \$ 328,431

NORTH HURON SCHOOLS

**STATEMENT OF REVENUE, EXPENDITURES  
AND CHANGE IN FUND BALANCE  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2017**

	<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	\$ 2,764,424	\$ -	\$ 971,190	\$ -	\$ 3,735,614
Food service	-	74,481	-	-	74,481
Interest	7,411	-	763	1,771	9,945
Other local revenue	382,183	-	-	801	382,984
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total local sources	3,154,018	74,481	971,953	2,572	4,203,024
State sources	1,389,820	13,105	-	-	1,402,925
Federal sources	208,599	168,225	-	-	376,824
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>TOTAL REVENUE</b>	<u>4,752,437</u>	<u>255,811</u>	<u>971,953</u>	<u>2,572</u>	<u>5,982,773</u>
<b>EXPENDITURES:</b>					
Instruction	2,861,938	-	-	-	2,861,938
Supporting services	1,877,298	-	-	-	1,877,298
Community services	3,179	-	-	23,861	27,040
Food service	-	248,463	-	-	248,463
Capital projects	-	-	-	16,560	16,560
Debt service:					
Principal repayment	-	-	900,000	-	900,000
Interest and fiscal charges	-	-	108,105	-	108,105
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>TOTAL EXPENDITURES</b>	<u>4,742,415</u>	<u>248,463</u>	<u>1,008,105</u>	<u>40,421</u>	<u>6,039,404</u>
<b>EXCESS OF REVENUE OVER (UNDER) EXPENDITURES</b>	<hr/> <u>10,022</u>	<hr/> <u>7,348</u>	<hr/> <u>(36,152)</u>	<hr/> <u>(37,849)</u>	<hr/> <u>(56,631)</u>
<b>OTHER FINANCING SOURCES (USES):</b>					
Other financing sources (uses)	10,400	(10,000)	-	-	400
Transfers in (out)	16,082	418	-	(16,500)	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>26,482</u>	<u>(9,582)</u>	<u>-</u>	<u>(16,500)</u>	<u>400</u>
<b>EXCESS OF REVENUE AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	<hr/> <u>36,504</u>	<hr/> <u>(2,234)</u>	<hr/> <u>(36,152)</u>	<hr/> <u>(54,349)</u>	<hr/> <u>(56,231)</u>
<b>FUND BALANCE - JULY 1</b>	1,735,928	62,606	146,954	266,309	2,211,797
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>FUND BALANCE - JUNE 30</b>	<u>\$ 1,772,432</u>	<u>\$ 60,372</u>	<u>\$ 110,802</u>	<u>\$ 211,960</u>	<u>\$ 2,155,566</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  
YEAR ENDED JUNE 30, 2017**

**NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS** \$ (56,231)

**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	\$ (270,965)	
Capital outlays	<u>27,634</u>	(243,331)

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	17,801	
Accrued interest payable, end of year	<u>(12,643)</u>	5,158

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>900,000</u>	900,000

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>(4,159)</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	131,020	
Accrued compensated absences, end of year	<u>(138,322)</u>	(7,302)

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	50,000	
Accrued voluntary incentive pay, end of year	<u>(25,000)</u>	25,000

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		(673,090)
-----------------------	--	-----------

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		(30,104)
-------------------------------	--	----------

**CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES**

\$ (65,326)

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

**NORTH HURON SCHOOLS**

**STATEMENT OF FIDUCIARY NET POSITION  
JUNE 30, 2017**

	<b><u>AGENCY FUNDS</u></b>
<b>ASSETS</b>	
Cash and deposits	\$ 90,370
<b>TOTAL ASSETS</b>	<u>\$ 90,370</u>
<b>LIABILITIES:</b>	
Due to student groups	\$ 90,370
<b>TOTAL LIABILITIES</b>	<u>\$ 90,370</u>

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

## NORTH HURON SCHOOLS

### NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

#### **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.



# NORTH HURON SCHOOLS

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

### **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 and community service 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, 2017

### **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 projects for which the 2014 School Technology Bonds were issued were considered complete on September 7, 2016 and the cumulative expenditures recognized for the construction period were as follows:

Revenue and other financing sources	\$ 750,292
Expenditures and outgoing transfers	\$ 705,504
Net bond proceeds included in revenue	\$ 750,000

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, 2017

#### **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, 2017, 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 2016 to August 2017. 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, 2017

### **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, 2017

#### **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, 2017

#### **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, 2017**

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

**Other Accounting Policies: (Continued)**

**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, 2017, the District levied the following amounts per \$1,000 of assessed valuation:

<u>Fund</u>	<u>Mills</u>
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	2.520
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, 2017**

**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, 2017.

The School District incurred no expenditures in certain budgetary funds which were in excess of the amounts appropriated.

**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	\$ 841,978
Investments	1,330,462

**Statement of Fiduciary Net Position**

Cash and deposits	90,370
Total	<u>\$2,262,810</u>

**Notes to Financial Statements**

Deposits	\$ 932,328
Cash on hand	20
Investments	1,330,462
Total	<u>\$2,262,810</u>



## NORTH HURON SCHOOLS

### NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

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

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

<u>Investment type</u>	<u>Fair value</u>	<u>Weighted average maturity (years)</u>	<u>Standard &amp; Poor's rating</u>	<u>%</u>
MILAF External Investment pool - CMC	\$ 5,168	0.0027	AA+	0.4%
MILAF External Investment pool - MAX	<u>1,325,294</u>	0.0027	AA+	<u>99.6%</u>
Total fair value	<u>\$ 1,330,462</u>			<u>100.0%</u>
Portfolio weighted average maturity		<u>0.0027</u>		

1 day maturity equals approximately .0027 years.

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

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

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

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

**Custodial credit risk – deposits.** In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2017, \$669,510 of the District's bank balance of \$947,869 was exposed to custodial credit risk because it was uninsured and uncollateralized. The carrying amount is \$932,328.

**NORTH HURON SCHOOLS**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017**

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

**Custodial credit risk – investments.** For an investment, this is the risk that, in the event of the failure of the counterparty, the 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:**

<u>FUND</u>	<u>INTERFUND RECEIVABLE</u>	<u>INTERFUND PAYABLE</u>
General Fund	\$ 141,134	\$ 166,319
Food Service	166,319	120,627
Debt Service	-	859
Library Fund	-	39,800
Community Service Fund	<u>23,300</u>	<u>3,148</u>
<b>TOTAL</b>	<b><u>\$ 330,753</u></b>	<b><u>\$ 330,753</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.

**NOTE 5 - RECEIVABLES:**

Receivables at June 30, 2017 from other governmental units consist of the following:

Governmental units:	
State revenue	\$ 229,559
Federal revenue	88,240
Local revenue	<u>119,275</u>
Totals	<b><u>\$ 437,074</u></b>

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.

## NORTH HURON SCHOOLS

### NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

#### **NOTE 6 – CAPITAL ASSETS:**

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

	<b><u>2016</u></b>	<b><u>ADDITIONS</u></b>	<b><u>DISPOSALS</u></b>	<b><u>2017</u></b>
Assets not being depreciated - Land	\$ 20,300	\$ -	\$ -	\$ 20,300
Capital assets, being depreciated:				
Buildings and additions	12,603,351	-	-	12,603,351
Furniture and equipment	698,725	27,634	-	726,359
Transportation equipment	630,192	-	-	630,192
Subtotal	<u>13,952,568</u>	<u>27,634</u>	<u>-</u>	<u>13,980,202</u>
Accumulated depreciation:				
Buildings and additions	5,932,749	215,115	-	6,147,866
Furniture and equipment	478,363	31,165	-	509,528
Transportation equipment	466,066	24,685	-	490,751
Subtotal	<u>6,877,178</u>	<u>270,965</u>	<u>-</u>	<u>7,148,145</u>
Net capital assets	<u>\$7,075,389</u>	<u>\$ (243,331)</u>	<u>\$ -</u>	<u>\$6,832,057</u>

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

Instruction	\$ 138,785
Support services	114,872
Athletics	3,704
Unallocated	<u>13,604</u>
Total depreciation	<u>\$270,965</u>

## NORTH HURON SCHOOLS

### NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

#### **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%	\$ 1,530,000
Premium on refunding bonds	37,540

#### **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%	685,000
Premium on refunding bonds	13,838
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	725,000
Total general obligation bonds	2,991,378
Obligation under contract for compensated absences	138,322
Total general long-term debt	\$3,129,700

Interest expense (all funds) for the year ended June 30, 2017 was approximately \$108,000.

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, 2017, \$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, 2017:

	<u>2016</u>	<u>ADDITIONS</u>	<u>PAYMENTS</u>	<u>2017</u>	<u>DUE WITHIN ONE YEAR</u>
<b><u>Port Hope</u></b>					
2015 refunding bonds	\$ 1,745,000	\$ -	\$ 215,000	\$ 1,530,000	\$ 215,000
Premium on bonds	42,437	-	4,897	37,540	9,794
<b><u>North Huron</u></b>					
2005 refunding bonds	1,345,000	-	660,000	685,000	685,000
2014 school tech bonds	750,000	-	25,000	725,000	30,000
Premium on bonds	27,675	-	13,838	13,838	13,837
Compensated absences	131,020	7,302	-	138,322	-
Totals	\$4,041,132	\$7,302	\$918,735	\$3,129,700	\$953,631

## NORTH HURON SCHOOLS

### NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

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

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

Years ending <u>June 30,</u>	<u>Port Hope</u>		<u>North Huron</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
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	225,000	15,400	-	-	240,400
2023-2024	440,000	17,200	-	-	457,200
Premium on bonds	37,540	-	13,838	-	51,378
Compensated absences	-	-	138,322	-	138,322
Totals	<u>\$1,567,540</u>	<u>\$137,600</u>	<u>\$1,562,160</u>	<u>\$75,552</u>	<u>\$3,342,852</u>

#### **NOTE 8 – DEFINED BENEFIT PLAN 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>.

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

##### **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:

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

## NORTH HURON SCHOOLS

### NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

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

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

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. In addition, the System's health plan provides all retirees with the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act.

Prior to Pension reform of 2010 there were two plans commonly referred to as Basic and the Member Investment Plan (MIP). Basic Plan member's contributions range from 0% - 4%. On January 1, 1987, the Member Investment Plan (MIP) was enacted. MIP members enrolled prior to January 1, 1990, contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990, or later including Pension Plus Plan members, contribute at various graduated permanently fixed contribution rates from 3.0% 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 services or military leave of absence on September 3, 2012, a voluntary election regarding their pension. Any changes to a member's pension are effective as of the member's *transition date*, which is defined as the first day of the pay period that begins on or after February 1, 2013. Under the reform, members voluntarily chose to increase, maintain, or stop their contributions to the pension fund. Members who elected under option 1 to increase their level of contribution contribute 4% (Basic Plan) or 7% (MIP).

## NORTH HURON SCHOOLS

### NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

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

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

Eligibility – Age 55 with 30 years credited service; or age 60 with 10 years credited service. For Member Investment Plan (MIP) members, 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.

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

##### **Member Contributions**

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

## NORTH HURON SCHOOLS

### NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

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

##### **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. The unfunded (overfunded) actuarial accrued liability as of September 30, 2016 valuation will be amortized over a 20-year period for fiscal year 2016.

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:

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

The District's pension contributions for the year ended June 30, 2017 were equal to the required contribution total. Pension contributions were approximately \$731,282 with \$519,383 specifically for the Defined Benefit Plan. These amounts include contributions funded from state revenue Section 147c restricted to fund the MPERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate (72.88% for pension and 27.12% for OPEB).

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

###### **Pension Liabilities**

At June 30, 2017, the District reported a liability of \$6,266,656 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2015 and rolled-forward using generally accepted actuarial procedures. The District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2016 and 2015, the District's proportion was .02512% and .02387%.



**NORTH HURON SCHOOLS**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017**

**NOTE 8 – DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFIT: (CONTINUED)**  
**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)**

<u>MPSERS (Plan) Non-university employers:</u>	<u>September 30, 2016</u>	<u>September 30, 2015</u>
Total pension liability	\$ 67,917,445,078	\$ 66,312,041,902
Plan fiduciary net position	\$ 42,968,263,308	\$ 41,887,015,147
Net pension liability	\$ 24,949,181,770	\$ 24,425,026,755
Proportionate share	0.02512%	0.02387%
Net pension liability for the District	\$ 6,266,656	\$ 5,829,025

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

For the year ended June 30, 2017, the District recognized pension expense of \$629,557. 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, 2017.

At June 30, 2017, 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	\$ 78,099	\$ (14,852)
Changes of assumptions	97,974	-
Net difference between projected and actual earnings on pension plan investments	104,152	-
Changes in proportion and differences between Reporting unit contributions and proportionate share of contributions	580,457	(478,505)
Reporting unit's contributions subsequent to the measurement date	571,753	-
Totals	<u>\$1,432,435</u>	<u>\$ (493,357)</u>

# NORTH HURON SCHOOLS

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

### **NOTE 8 – DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFIT: (CONTINUED)** **Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)**

\$571,753 reported as deferred outflows of resources related to pensions resulting from District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

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

<b><u>Year ended September 30,</u></b>	<b><u>Amount</u></b>
2017	\$ 81,616
2018	\$ 73,426
2019	\$ 178,298
2020	\$ 33,985

### **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 2025 using projection scale BB for men and women were used.

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

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

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

**NORTH HURON SCHOOLS**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017**

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

**Actuarial Assumptions (Continued)**

<u>Investment Category</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return*</u>
Domestic Equity Pools	28.00%	5.90%
Alternate Investment Pools	18.00%	9.20%
International Equity Pools	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	<u>2.00%</u>	0.00%
	<u>100.00%</u>	

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

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

**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% (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% Decrease</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% Increase</u></b> <b><u>(8% - 9.0%)</u></b>
Reporting unit’s proportionate share of the net pension liability	<u>\$8,069,875</u>	<u>\$6,266,656</u>	<u>\$4,746,368</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 2016 Comprehensive Annual Financial Report.

## NORTH HURON SCHOOLS

### NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

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

##### **Pension Plan Fiduciary Net Position (Continued)**

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

##### **Other Information**

###### ***Discount Rate – Assumed Rate of Return***

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

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

###### ***Pension Reform 2017***

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

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

## NORTH HURON SCHOOLS

### NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

#### **NOTE 8 – DEFINED BENEFIT PLAN 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 February 1, 2013.

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, 2017**

**NOTE 8 – DEFINED BENEFIT PLAN 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 September 30, 2016 5.69% to 5.91% of covered payroll for the period from October 1, 2016 through September 30, 2017 dependent upon the employee's date of hire and plan election.

The District's postemployment healthcare contributions to MPERS for the years ended June 30, 2017, 2016 and 2015 were approximately \$145,972, \$156,752 and \$57,401.

**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, 2017.

<b>Year ending</b>	<b>Amount</b>
<b><u>June 30,</u></b>	
2018	<u>\$2,080</u>
<b>Total minimum payments required</b>	<u>\$2,080</u>

**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.

The district annexed Port Hope Community Schools in 2015. Currently, there is a liability for overpayments of state aid on Port Hope Community Schools' state aid account. The amount is \$11,613 as of June 30, 2017. The state keeps this account open three years after annexation. The balance, if any, will be charged to North Huron Schools' state aid account in 2019.

## NORTH HURON SCHOOLS

### NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

#### **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.

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

**REQUIRED SUPPLEMENTARY INFORMATION**



**NORTH HURON SCHOOLS**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**  
**YEAR ENDED JUNE 30, 2017**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET</u>
<b>REVENUE:</b>				
Local sources:				
Taxes	\$ 2,709,637	\$ 2,764,424	\$ 2,764,424	\$ -
Interest	3,550	7,240	7,411	171
Athletic activities	35,601	37,053	37,053	-
Other local revenue	469,588	359,798	345,130	(14,668)
Total local sources	<u>3,218,376</u>	<u>3,168,515</u>	<u>3,154,018</u>	<u>(14,497)</u>
State sources	1,227,288	1,398,510	1,389,820	(8,690)
Federal sources	209,225	210,496	208,599	(1,897)
<b>TOTAL REVENUE</b>	<u>4,654,889</u>	<u>4,777,521</u>	<u>4,752,437</u>	<u>(25,084)</u>
<b>EXPENDITURES:</b>				
Instruction				
Pre-kindergarten	108,365	133,799	132,768	1,031
Elementary	799,398	844,965	839,707	5,258
Secondary	1,098,208	1,129,770	1,117,908	11,862
Compensatory education	331,025	323,722	319,617	4,105
Vocational education	89,736	90,865	86,475	4,390
Special education	398,003	369,015	365,463	3,552
Total instruction	<u>2,824,735</u>	<u>2,892,136</u>	<u>2,861,938</u>	<u>30,198</u>
Supporting services				
Truance/absenteeism services	937	1,200	-	1,200
Guidance services	55,035	52,323	52,040	283
Other pupil support services	6,800	6,800	6,147	653
Academic student assessment	33,125	38,585	38,447	138
Improvement of instruction	6,135	17,869	16,663	1,206
Library	5,052	3,702	3,037	665
Instructional related technology	37,114	38,333	37,098	1,235
Supervision and direction of instructional staff	30,740	36,185	36,185	-
Board of education	50,981	38,340	34,715	3,625
Executive and administration	230,285	231,209	229,510	1,699
School administration	341,987	361,140	355,830	5,310
Fiscal services	103,247	99,935	98,800	1,135
Internal services	4,000	4,000	3,643	357
Other business services	4,316	20,875	20,875	-
Operation and maintenance of plant	426,574	465,400	443,516	21,884
Pupil transportation	273,939	282,219	274,591	7,628
Support services - Central	72,011	76,614	72,868	3,746
Athletics	145,601	153,736	153,333	403
Total supporting services	<u>1,827,879</u>	<u>1,928,465</u>	<u>1,877,298</u>	<u>51,167</u>
Community services	1,275	3,862	3,179	683
<b>TOTAL EXPENDITURES</b>	<u>4,653,889</u>	<u>4,824,463</u>	<u>4,742,415</u>	<u>82,048</u>

(Continued)

**NORTH HURON SCHOOLS**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**  
**YEAR ENDED JUNE 30, 2017**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET</u>
<b>EXCESS OF REVENUE OVER (UNDER) EXPENDITURES</b>	<u>1,000</u>	<u>(46,942)</u>	<u>10,022</u>	<u>56,964</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Sale of capital assets	1,000	400	400	-
Indirect costs	-	10,000	10,000	-
Operating transfers in	-	16,500	16,500	-
Operating transfers to other funds	-	(418)	(418)	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>1,000</u>	<u>26,482</u>	<u>26,482</u>	<u>-</u>
<b>EXCESS OF REVENUE AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	<u>2,000</u>	<u>(20,460)</u>	<u>36,504</u>	<u>56,964</u>
<b>FUND BALANCE - JULY 1</b>	1,735,928	1,735,928	1,735,928	-
<b>FUND BALANCE - JUNE 30</b>	<u>\$ 1,737,928</u>	<u>\$ 1,715,468</u>	<u>\$ 1,772,432</u>	<u>\$ 56,964</u>

**NORTH HURON SCHOOLS**

**REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
FOOD SERVICE FUND  
YEAR ENDED JUNE 30, 2017**

	<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	\$ 84,000	\$ 74,049	\$ 73,267	\$ (782)
Miscellaneous	1,395	499	1,214	715
Total local sources	<u>85,395</u>	<u>74,548</u>	<u>74,481</u>	<u>(67)</u>
State sources	10,010	13,105	13,105	-
Federal sources:				
Reimbursements	145,000	153,322	153,322	-
Commodities	13,000	14,903	14,903	-
<b>TOTAL REVENUE</b>	<u>253,405</u>	<u>255,878</u>	<u>255,811</u>	<u>(67)</u>
<b>EXPENDITURES:</b>				
Salaries and wages	73,160	67,656	67,462	194
Employee benefits	45,012	47,566	46,874	692
Food	119,264	123,941	123,897	44
Supplies and equipment	4,893	5,036	4,965	71
Purchased services	2,532	2,532	2,278	254
Repairs	2,050	500	490	10
Miscellaneous	2,565	2,511	2,497	14
<b>TOTAL EXPENDITURES</b>	<u>249,476</u>	<u>249,742</u>	<u>248,463</u>	<u>1,279</u>
<b>EXCESS OF REVENUE OVER (UNDER) EXPENDITURES</b>	<u>3,929</u>	<u>6,136</u>	<u>7,348</u>	<u>1,212</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating transfers in	-	418	418	-
Indirect costs	-	(10,000)	(10,000)	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>-</u>	<u>(9,582)</u>	<u>(9,582)</u>	<u>-</u>
<b>EXCESS OF REVENUE AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	<u>3,929</u>	<u>(3,446)</u>	<u>(2,234)</u>	<u>1,212</u>
<b>FUND BALANCE - JULY 1</b>	62,606	62,606	62,606	-
<b>FUND BALANCE - JUNE 30</b>	<u>\$ 66,535</u>	<u>\$ 59,160</u>	<u>\$ 60,372</u>	<u>\$ 1,212</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>2016</u>	<u>2015</u>	<u>2014</u>
Reporting unit's proportion of net pension liability (%)	0.02512%	0.02387%	0.02132%
Reporting unit's proportionate share of net pension liability	\$ 6,266,656	\$ 5,829,025	\$ 4,695,506
Reporting unit's covered-employee payroll	\$ 2,151,076	\$ 2,014,400	\$ 1,991,568
Reporting unit's proportionate share of net pension liability as a percentage of its covered-employee payroll	291.33%	289.37%	235.77%
Plan fiduciary net position as a percentage of total pension liability	63.27%	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>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contributions	\$ 510,991	\$ 493,861	\$ 424,168
Contributions in relation to statutorily required contributions	510,991	493,861	424,168
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Reporting unit's covered-employee payroll	\$2,070,540	\$ 2,124,602	\$ 2,118,126
Contributions as a percentage of covered-employee payroll	24.68%	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, 2017**

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

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

**ADDITIONAL SUPPLEMENTARY INFORMATION**

**NORTH HURON SCHOOLS**

**COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2017**

	<b><u>COMMUNITY SERVICE</u></b>	<b><u>LIBRARY</u></b>	<b><u>CAPITAL PROJECTS</u></b>	<b>TOTAL NONMAJOR GOVERNMENTAL FUNDS</b>
<b><u>ASSETS</u></b>				
<b>CURRENT ASSETS:</b>				
Cash and deposits	\$ -	\$ -	\$ 28,359	\$ 28,359
Investments	-	223,161	-	223,161
Accounts receivable	802	-	-	802
Due from other funds	23,300	-	-	23,300
<b>TOTAL ASSETS</b>	<b><u>\$ 24,102</u></b>	<b><u>\$223,161</u></b>	<b><u>\$ 28,359</u></b>	<b><u>\$ 275,622</u></b>
<b><u>LIABILITIES AND FUND EQUITY</u></b>				
<b>LIABILITIES:</b>				
Accounts payable	\$ 20,714	\$ -	\$ -	\$ 20,714
Due to other funds	3,148	39,800	-	42,948
<b>TOTAL LIABILITIES</b>	<b><u>23,862</u></b>	<b><u>39,800</u></b>	<b><u>-</u></b>	<b><u>63,662</u></b>
<b>FUND BALANCE</b>	<b>240</b>	<b>183,361</b>	<b>28,359</b>	<b>211,960</b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b><u>\$ 24,102</u></b>	<b><u>\$223,161</u></b>	<b><u>\$ 28,359</u></b>	<b><u>\$ 275,622</u></b>



**NORTH HURON SCHOOLS**

**COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGE IN  
FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2017**

	<b><u>COMMUNITY SERVICE</u></b>	<b><u>LIBRARY</u></b>	<b><u>CAPITAL PROJECTS</u></b>	<b>TOTAL NONMAJOR GOVERNMENTAL FUNDS</b>
<b>REVENUE:</b>				
Local sources:				
Interest	\$ -	\$ 1,597	\$ 174	\$ 1,771
Community services	801	-	-	801
<b>TOTAL REVENUE</b>	<u>801</u>	<u>1,597</u>	<u>174</u>	<u>2,572</u>
<b>EXPENDITURES:</b>				
Community services	23,861	-	-	23,861
Capital projects	-	-	16,560	16,560
<b>TOTAL EXPENDITURES</b>	<u>23,861</u>	<u>-</u>	<u>16,560</u>	<u>40,421</u>
<b>EXCESS OF REVENUE OVER (UNDER) EXPENDITURES</b>	<u>(23,060)</u>	<u>1,597</u>	<u>(16,386)</u>	<u>(37,849)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in (out)	23,300	(39,800)	-	(16,500)
<b>EXCESS OF REVENUE AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES</b>	<u>240</u>	<u>(38,203)</u>	<u>(16,386)</u>	<u>(54,349)</u>
<b>FUND BALANCE - JULY 1</b>	-	221,564	44,745	266,309
<b>FUND BALANCE - JUNE 30</b>	<u>\$ 240</u>	<u>\$ 183,361</u>	<u>\$ 28,359</u>	<u>\$ 211,960</u>

**NORTH HURON SCHOOLS**

**COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGE IN  
FUND BALANCE - DEBT SERVICE FUNDS  
YEAR ENDED JUNE 30, 2017**

	<u>NORTH HURON DEBT FUND</u>	<u>PORT HOPE COMMUNITY SCHOOL DEBT FUND</u>	<u>TOTAL DEBT FUNDS</u>
<b><u>REVENUE:</u></b>			
Local sources:			
Taxes	\$ 728,394	\$ 242,796	\$ 971,190
Interest	626	137	763
<b>TOTAL REVENUE</b>	<u>729,020</u>	<u>242,933</u>	<u>971,953</u>
<b><u>EXPENDITURES:</u></b>			
Debt service:			
Principal repayment	685,000	215,000	900,000
Interest and fiscal charges	70,605	37,500	108,105
<b>TOTAL EXPENDITURES</b>	<u>755,605</u>	<u>252,500</u>	<u>1,008,105</u>
<b>EXCESS OF REVENUE OVER (UNDER) EXPENDITURES</b>	<u>(26,585)</u>	<u>(9,567)</u>	<u>(36,152)</u>
<b>FUND BALANCE - JULY 1</b>	146,954	-	146,954
<b>FUND BALANCE - JUNE 30</b>	<u>\$ 120,369</u>	<u>\$ (9,567)</u>	<u>\$ 110,802</u>

**NORTH HURON SCHOOLS**

**SCHEDULE OF BONDED DEBT  
2005 REFUNDING BOND DEBT  
JUNE 30, 2017**

<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>2018</b>	<b>4.0%</b>	<b><u>1-Nov</u></b>	<b><u>1-May</u></b>		
		\$ 13,700	\$ 13,700	\$ 685,000	\$ 712,400
<b>Total</b>		<b><u>\$ 13,700</u></b>	<b><u>\$ 13,700</u></b>	<b><u>\$ 685,000</u></b>	<b><u>\$ 712,400</u></b>

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, 2017**

<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><u>June 30,</u></b>					
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>\$ 24,076</u>	<u>\$ 24,076</u>	<u>\$ 725,000</u>	<u>\$ 773,152</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, 2017**

<b>Fiscal Years Ending</b>	<b>Interest Rate</b>	<b>Interest due</b>		<b>Principal 1-May</b>	<b>Total due Annually</b>
<b><u>June 30,</u></b>		<b><u>1-Nov</u></b>	<b><u>1-May</u></b>		
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>\$ 68,800</u>	<u>\$ 68,800</u>	<u>\$ 1,530,000</u>	<u>\$ 1,667,600</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, 2017, 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 2, 2017.

**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.

## **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.*

NIETZKE & FAUPEL, P.C.  
Pigeon, Michigan

October 2, 2017