Hastings Area School System
Hastings, Michigan

FINANCIAL STATEMENTS

June 30, 2017

Hastings Area School System

Hastings, Michigan

June 30, 2017

BOARD OF EDUCATION

Hastings Area School System

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Hastings Area School System
Hastings, 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 Hastings Area School System (the District), 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.

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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 Hastings Area School System as of June 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedules of proportionate share of net pension liability and contributions, 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 the District's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the 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 the District's internal control over financial reporting and compliance.

Stevens Kirinovic & Tucker, P.C.

STEVENS, KIRINOVIC & TUCKER, P.C.
Certified Public Accountants

October 11, 2017

This section of Hastings Area School System's (the District) annual financial report presents management's discussion and analysis of the District's financial performance during the year ended June 30, 2017. Please read it in conjunction with the District's financial statements, which immediately follow this section.

Using this Annual Report

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

District-wide Financial Statements

One of the most important questions asked about the District is, "As a whole, what is the District's financial condition as a result of the year's activities?" The statement of net position and the statement of activities, which appear first in the District's financial statements, report information on the District as a whole and its activities in a way that helps you answer this question. These financial statements were prepared to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

The statement of net position and the statement of activities report the governmental activities for the District, which encompass all of the District's services, including 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 District's fund financial statements provide detailed information about the most significant funds - not the District as a whole. Some funds are required to be established by State law and by bond covenants. However, the District establishes many other funds to help it control and manage money for particular purposes (the Food Service in as example) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects). The governmental funds of the District use the following accounting approach:

Governmental funds - All of the District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year-end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds is explained through the reconciliations on pages 4 and 6.

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

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

The District as a Whole

Recall that the statement of net position provides the perspective of the District as a whole. Table 1 provides a summary of the District's net position as of June 30, 2017, with comparative information as of June 30, 2016:

Table 1

	Statement of Net Position	
	June 30, 2017	June 30, 2016
Assets		
Current and other assets	$ 43,367,715	$ 54,984,142
Capital assets	37,173,813	27,085,101
Total assets	80,541,528	82,069,243
Deferred outflows of resources	5,178,404	4,748,353
Liabilities		
Current liabilities	11,242,165	11,413,626
Noncurrent liabilities	90,658,948	92,311,641
Total liabilities	101,901,113	103,725,267
Deferred inflows of resources	1,284,396	867,325
Net position		
Net investment in capital assets	10,205,340	9,391,622
Restricted	1,943,174	1,095,944
Unrestricted	(29,614,091)	(28,262,562)
Total net position	$(17,465,577)	$(17,774,996)

By far the most significant portion of the District's net position is the negative unrestricted portion caused mainly by pensions. The District also reports its investment in capital assets (e.g., land, buildings, equipment, etc.), net of related debt. The District uses these capital assets to provide services to students and residents of the community; consequently, these assets are *not* available for future spending. Also, a certain amount of net position was restricted for specific purposes such as debt service and capital projects.

The analysis in Table 1 focuses on the net position of the District. The effect on net position as a result of the fiscal year activities is reflected in Table 2.

The District's net position was ($17,465,577) on at June 30, 2017, and ($17,774,996) at June 30, 2016, (Table 1). Net position increased from the prior fiscal year by approximately $309,419. This increase was primarily the result of paying down district debt.

Net investment in capital assets, totaling $10,205,340, compares the original cost, less depreciation of the District's capital assets, to the long-term debt used to finance the acquisition of those assets. Capital assets also reflect investments in capital assets from operating funds. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the District's ability to use that net position for day-to-day operations. Restricted net position reflects amounts that are restricted by outside sources including for the Debt Service Fund balance less accrued interest on long-term debt and the Sinking Fund capital project balance as of June 30, 2017. Unrestricted net position reflects those assets available to the school district for use in its operation.

The ($29,614,091) in unrestricted net position of governmental activities represents the *accumulated* results of all past years' operations. The unrestricted net position balance enables the District to meet working capital and cash flow requirements as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

The results of this year's operations for the District as a whole are reported in the condensed statement of activities (Table 2), which shows the changes in net position for fiscal year 2016/2017. Depreciation costs are not allocated to areas of activities but reflected in the Statement of Activities as unallocated.

Table 2

	Year Ended, June 30, 2017	Year Ended, June 30, 2016
Revenues		
Program revenues		
Charges for services	$ 1,165,561	$ 1,159,516
Operating grants and contributions	4,805,022	4,719,072
Capital grants and contributions	363,044	149,996
General revenues		
Property taxes	8,028,693	5,819,757
State school aid - unrestricted	16,771,030	16,412,723
Other	339,108	291,099
Special item	-	308,469
Total revenue	31,472,458	28,860,632
Functions/Program Expenses		
Instruction	16,135,655	15,679,850
Support services	9,432,797	8,083,761
Food services	1,102,283	1,101,107
Community service	758,049	704,561
Interest and costs on long-term debt	2,184,233	1,309,107
Unallocated depreciation	1,550,022	1,606,581
Total expenses	31,163,039	28,484,967
Increase in net position	$ 309,419	$ 375,665

The 2016/2017 fiscal year presented a number of challenges for the District, particularly in the General Fund. However, with modest increases in state and federal revenues it was anticipated that revenues would outpace expenses. There continues to be a strain on the State’s ability to adequately fund public schools. Expenses continue to increase without a corresponding increase in revenues. Other factors that affect the value of Net Position are year-to-year fund balances in the debt service funds, amounts of debt outstanding, as well as the fund balance in the School Service funds at year-end.

As reported in the Statement of Activities, the cost of all of the *governmental* activities this year was $31,163,039. Certain activities were partially funded from those who benefited from the programs ($1,165,561 charges for services) or by other governments and organizations that subsidized certain programs with operating and capital grants and contributions ($5,168,066). The remaining “public benefit” portion of the governmental activities was paid with $8,028,693 in taxes (for General and Debt funds) and $17,110,138 in State foundation allowance, and other revenues, i.e., interest and general entitlements, in the current year.

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

The District’s Funds

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

As the District completed this year, the governmental funds reported a combined fund balance of $35,914,830, which is a decrease of approximately $11,476,976 from the prior fiscal year. The primary reason for this is the payment for renovation and rehabilitation of District buildings.

Fund Highlights

Over the course of the year, the District revises its budget multiple times as it attempted to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was adopted in June 2015, just before the fiscal year-end. A schedule showing the District’s original and final budget amounts compared with amounts actually paid and received is provided in the required supplementary information of these financial statements.

There were several revisions made to the 2016/2017 General Fund original budget. The final amended revenue and other financing sources budget was amended upwards by approximately $2,204,246 (10.00%) as better information related to state and federal funding and the pupil count became available. Actual revenues and other financing sources were approximately $11,161 more than final amended budget as the District received unexpected year end state and federal aid adjustments and greater than anticipated local funds from grants and contributions.

The final amended expenditure and other financing uses budget of the General Fund was amended upwards by approximately $2,510,943 (11.41%) once the revenue picture was better known and the funds available to expend could be accurately determined. Actual expenditures and other financing uses were approximately $178,329 (0.73%) under the final amended budget. Actual expenditures increased by approximately $700,512 from fiscal year 2016 as a result of increased number of elementary social workers, previously committed retirement incentive for principals and additional repair and contracted expenses in the maintenance area.

The Debt Service Fund had a fund balance of $1,321,546 at June 30, 2017, all of which is restricted for the payment of debt related to certain District bonds. The fund balance decreased significantly during fiscal year 2017 as a result of the District paying down district debt.

The Building and Site Fund had a fund balance of $31,429,122 at June 30, 2017, all of which is restricted for the renovation and rehabilitation of District buildings. The fund balance decreased significantly during fiscal year 2017 as a result of capital project activity related to the issuance of the 2016 Building and Site Bonds.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2017, the District had approximately $37.2 million invested in a broad range of net capital assets, including land, buildings, vehicles, furniture, and equipment (net of accumulated depreciation). This amount represents a net increase (including additions and disposals) of approximately $10,088,712 from the prior fiscal year. Below is the historical cost (net of accumulated depreciation) of all District capital assets:

	2017	2016
Land	$ 53,410	$ 53,410
Construction in progress	13,191,183	1,751,414
Buildings and building improvements	23,131,006	24,079,021
Buses and other vehicles	369,319	488,980
Furniture and equipment	428,895	712,276
Total	$ 37,173,813	$ 27,085,101

See Note D to the financial statements for more details related to capital assets.

Debt

At the end of this year, the District had more than $52 million in bonds and other obligations outstanding versus approximately $55 million in the previous year. Those debts consisted of the following:

	2017	2016
General obligation bonds	$ 51,654,246	$ 54,132,999
Capital lease and installment purchase agreements	298,045	476,021
Compensated absences	366,706	419,555
Total	$ 52,318,997	$ 55,028,575

The State limits the amount of general obligation debt that schools can issue up to 15 percent of the assessed value of all taxable property within the District's boundaries. If the School District issues "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit. The District's outstanding qualified general obligation debt is below the statutorily imposed limit.

The District also had $6,361,849 in unamortized bond items. Long-term obligations, including compensated absences, are reported as required by GASB. More detailed information about long-term liabilities is presented in Note F to the financial statements.

Economic Factors and Next Year's Budgets and Rates

The District's elected officials and administration considered many factors when setting the District's 2017/2018 fiscal year budgets. One of the most important factors affecting the budget is the student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2017 fiscal year is 90 percent and 10 percent of the October 2017 and February 2017 student counts, respectively. The 2017/2018 budget was adopted in June 2017, based on an estimate of students that will be enrolled in September 2017. Approximately 75 percent of total General Fund revenue is from the foundation allowance. Under State law, the District cannot access additional property tax revenue for general operations. As a result, District funding is heavily dependent on the State's ability to fund local school operations. Once the final student count and related per pupil funding is validated, State law requires the District to amend the budget if actual resources are not sufficient to fund original appropriations.

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

Another important factor is a decrease in federal funding to Title I and Title II programs which help the neediest students and provides training for the District staff.

Contacting the District's Management

This financial report is intended to provide taxpayers, parents, and investors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional information, please contact the Business Office, 232 West Grand Street, Hastings, Michigan 49058.

BASIC FINANCIAL STATEMENTS

Hastings Area School System

STATEMENT OF NET POSITION

June 30, 2017

	Governmental Activities
ASSETS	
Current assets	
Cash and cash equivalents	$ 12,670,399
Investments	22,909,576
Accounts receivable	65,061
Due from other governmental units	3,738,436
Inventory	23,484
Prepaids	11,180
Total current assets	39,418,136
Noncurrent assets	
Investments	3,949,579
Capital assets not being depreciated	13,244,593
Capital assets, net of accumulated depreciation	23,929,220
Total noncurrent assets	41,123,392
TOTAL ASSETS	80,541,528
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charges on refunding	400,856
Deferred outflows of resources related to pensions	4,777,548
TOTAL DEFERRED OUTFLOWS OF RESOURCES	5,178,404
LIABILITIES	
Current liabilities	
Accounts payable	2,305,939
Accrued payroll liabilities	1,890,024
Other accrued liabilities	77,945
Unearned revenue	79,587
Accrued interest payable	382,512
Short-term notes payable	3,073,310
Current portion of compensated absences	155,932
Current portion of long-term debt	3,276,916
Total current liabilities	11,242,165
Noncurrent liabilities	
Noncurrent portion of compensated absences	210,774
Noncurrent portion of long-term debt	55,037,224
Net pension liability	35,410,950
Total noncurrent liabilities	90,658,948
TOTAL LIABILITIES	101,901,113
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	1,284,396
NET POSITION	
Net investment in capital assets	10,205,340
Restricted	1,943,174
Unrestricted	(29,614,091)
TOTAL NET POSITION	$(17,465,577)

See accompanying notes to financial statements.

Hastings Area School System

STATEMENT OF ACTIVITIES

Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenues and Changes in Net Position: Governmental Activities
Governmental activities					
Instruction	$ 16,135,655	$ 3,740	$ 4,100,087	$ -	$(12,031,828)
Supporting services	9,432,797	285,954	55,084	24,664	(9,067,095)
Food service	1,102,283	306,656	649,851	-	(145,776)
Community service	758,049	569,211	-	-	(188,838)
Interest and costs on long-term debt	2,184,233	-	-	338,380	(1,845,853)
Unallocated depreciation	1,550,022	-	-	-	(1,550,022)
TOTAL	$ 31,163,039	$ 1,165,561	$ 4,805,022	$ 363,044	(24,829,412)
General revenues					
Property taxes					8,028,693
State school aid - unrestricted					16,771,030
County special education allocation					69,514
Investment earnings					195,130
Miscellaneous					74,464
TOTAL GENERAL REVENUES					25,138,831
CHANGE IN NET POSITION					309,419
Net position, beginning of year					(17,774,996)
Net position, end of year					$(17,465,577)

See accompanying notes to financial statements.

Hastings Area School System

Governmental Funds

BALANCE SHEET

June 30, 2017

	General	Debt Service	Building and Site Fund (Capital Project)	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	$ 4,501,455	$ 1,321,546	$ 6,319,683	$ 527,715	$ 12,670,399
Investments	-	-	26,859,155	-	26,859,155
Accounts receivable	54,117	-	-	10,944	65,061
Due from other governmental units	3,696,444	-	-	15,912	3,712,356
Inventory	13,131	-	-	10,353	23,484
Prepaids	11,180	-	-	-	11,180
TOTAL ASSETS	$ 8,276,327	$ 1,321,546	$ 33,178,838	$ 564,924	$ 43,341,635
LIABILITIES					
Accounts payable	$ 533,458	$ -	$ 1,749,716	$ 22,765	$ 2,305,939
Accrued payroll	1,886,177	-	-	3,847	1,890,024
Accrued liabilities	63,427	-	-	14,518	77,945
Unearned revenue	70,420	-	-	9,167	79,587
Short-term note payable	3,073,310	-	-	-	3,073,310
TOTAL LIABILITIES	5,626,792	-0-	1,749,716	50,297	7,426,805
FUND BALANCES					
Nonspendable	24,311	-	-	-	24,311
Restricted	-	1,321,546	31,429,122	514,627	33,265,295
Committed	525,500	-	-	-	525,500
Unassigned	2,099,724	-	-	-	2,099,724
TOTAL FUND BALANCES	2,649,535	1,321,546	31,429,122	514,627	35,914,830
TOTAL LIABILITIES AND FUND BALANCES	$ 8,276,327	$ 1,321,546	$ 33,178,838	$ 564,924	$ 43,341,635

See accompanying notes to financial statements.

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION

June 30, 2017

Total fund balances - governmental funds		$ 35,914,830
Amounts reported for the governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.		
The cost of capital assets is	$ 71,044,746	
Accumulated depreciation is	(33,870,933)	
		37,173,813
Governmental funds report the difference between the carrying amount of the defeased debt and its reacquisition price when debt is first issued, whereas these amounts are deferred and amortized in the government-wide statement of net position. These amounts consist of:		
Deferred charges on refunding		400,856
Governmental funds report actual pension expenditures for the fiscal year, whereas the governmental activities will recognize the net pension liability as of the measurement date. Pension contributions subsequent to the measurement date will be deferred in the statement of net position. In addition, resources related to changes of assumptions, differences between expected and actual experience, and differences between projected and actual pension plan investment earnings will be deferred over time in the government-wide financial statements. These amounts consist of:		
Deferred outflows of resources related to pensions	4,777,548	
Deferred inflows of resources related to pensions	(1,284,396)	
		3,493,152
Long-term liabilities 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:		
Capitalized bond premiums	(6,361,849)	
Bonds, loans, and lease payable	(51,952,291)	
Accrued interest payable, net of long-term receivable for the Federal subsidy program	(356,432)	
Compensated absences	(366,706)	
Net pension liability	(35,410,950)	
		(94,448,228)
Net position of governmental activities		$(17,465,577)

See accompanying notes to financial statements.

Hastings Area School System

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended June 30, 2017

	General	Debt Service	Building and Site Fund (Capital Project)	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES					
Local sources	$ 3,323,641	$ 4,554,325	$ 169,269	$ 1,477,131	$ 9,524,366
State sources	20,066,290	21,703	-	46,503	20,134,496
Federal sources	802,353	145,761	192,619	603,349	1,744,082
TOTAL REVENUES	24,192,284	4,721,789	361,888	2,126,983	31,402,944
EXPENDITURES					
Current					
Instruction	15,277,346	-	-	-	15,277,346
Supporting services	8,540,143	-	-	-	8,540,143
Food service	-	-	-	1,040,238	1,040,238
Community service	7,430	-	-	707,958	715,388
Capital outlay	-	-	11,706,202	315,843	12,022,045
Debt service	415,482	4,938,792	-	-	5,354,274
TOTAL EXPENDITURES	24,240,401	4,938,792	11,706,202	2,064,039	42,949,434
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(48,117)	(217,003)	(11,344,314)	62,944	(11,546,490)
OTHER FINANCING SOURCES (USES)					
County special education allocation	69,514	-	-	-	69,514
Transfers in	-	-	-	96,154	96,154
Transfers out	(96,154)	-	-	-	(96,154)
TOTAL OTHER FINANCING SOURCES (USES)	(26,640)	-0-	-0-	96,154	69,514
NET CHANGE IN FUND BALANCES	(74,757)	(217,003)	(11,344,314)	159,098	(11,476,976)
Fund balances, beginning of year	2,724,292	1,538,549	42,773,436	355,529	47,391,806
Fund balances, end of year	$ 2,649,535	$ 1,321,546	$ 31,429,122	$ 514,627	$ 35,914,830

See accompanying notes to financial statements.

Hastings Area School System

Governmental Funds

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2017

Net change in fund balances - total governmental funds		$(11,476,976)
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In addition, in the statement of activities, the gain or loss from the sale of capital assets is reported, whereas in the governmental funds, only proceeds from the sale increases financial resources. Thus, the change in net position differs from the change in fund balance by the cost of capital assets sold. In the current period, these amounts are:		
Capital outlay	$ 11,638,734	
Depreciation expense	(1,550,022)	
Excess of capital outlay over depreciation expense		10,088,712
Certain transactions related to long-term debt are reported as expenditures or other financing sources/uses in governmental funds, but are reflected as increases or decreases of the applicable deferred outflows of resources or liabilities in the statement of net position. In the current year, these amounts consist of:		
Amortization of deferred charges on refunding	(124,838)	
Amortization of capitalized premiums	301,056	
Debt principal retirement	2,656,729	
		2,832,947
Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:		
Decrease in accrued interest payable	337,094	
Decrease in compensated absences	52,849	
Increase in deferred outflows of resources related to pensions	554,889	
(Increase) in deferred inflows of resources related to pensions	(417,071)	
(Increase) in net pension liability	(1,663,025)	
		(1,135,264)
Change in net position of governmental activities		$ 309,419

See accompanying notes to financial statements.

Hastings Area School System

Fiduciary Fund

STATEMENT OF ASSETS AND LIABILITIES

June 30, 2017

	Agency Fund
ASSETS	
Cash	$ 416,359
LIABILITIES	
Due to student groups	$ 416,359

See accompanying notes to financial statements.

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Hastings Area School System (the District) have been prepared in conformity with accounting principles generally accepted in the United States of America (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 District's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America, these financial statements present the financial activities of the District. The District has no activities that would be classified as component units.

Based upon the application of these criteria, the financial statements of the District contain all the funds controlled by the District.

2. Basis of Presentation

DISTRICT-WIDE FINANCIAL STATEMENTS

The statement of net position and the statement of activities (the district-wide financial statements) present information for the district as a whole. All non-fiduciary activities of the District are included (i.e., fiduciary fund activities are not included in the district-wide financial statements). Interfund activity has been eliminated in the preparation of the district-wide financial statements.

The statement of activities presents the direct functional expenses of the District and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, unrestricted State aid payments, and other general revenues and shows how governmental functions are either self-financing or supported by the general revenues of the District.

FUND FINANCIAL STATEMENTS

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. Separate financial statements are provided for governmental funds and fiduciary funds even though the latter are excluded from the district-wide financial statements.

The governmental fund financial statements present the District's individual major funds and aggregated nonmajor funds. A separate column is shown for each major fund on the balance sheet and statement of revenues, expenditures, and changes in fund balances. Nonmajor funds are combined and shown in a single column. Fiduciary funds are reported by type and are used to account for assets held by the District where the District acts in an agency capacity with these funds for individuals outside the District (i.e., student activities).

The major governmental funds of the District are:

a. General Fund - The General Fund is used to account for money or other resources provided to the District to support the educational programs and general operations of the District.

b. Debt Service Fund - The Debt Service Fund was established to account for restricted tax revenue for payment of debt related to certain District bonds.

c. Building and Site Fund - The Building and Site Capital Project Fund was established to account for the capital projects related to the 2016 Building and Site bonds.

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Measurement Focus

The district-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the district-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets, deferred outflows of resources, current liabilities, and deferred inflows of resources, when applicable, are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in fund balance.

There is no measurement focus for the fiduciary agency fund since assets equal liabilities.

4. Basis of Accounting

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements use the modified accrual basis of accounting. The district-wide and fiduciary fund financial statements are prepared using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Property tax revenue is recognized in the fiscal year for which it is levied. Revenues for grants, entitlements, and donations are recognized when all eligibility requirements imposed by the provider have been met. Unearned revenue is recorded when resources are received by the District before it has legal claim to them, such as when grant monies are received prior to the incurrence of qualified expenses.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected with sixty (60) days of the end of the current period. Revenues susceptible to accrual include property taxes, state and federal aid, and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt which are recorded when due.

If/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 they are needed.

5. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General and Special Revenue Funds. The District does not maintain a formalized encumbrance accounting system. All unexpended appropriations lapse at fiscal year end.

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

a. 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 for financing them.

b. Public hearings are conducted to obtain taxpayer comments.

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

5. Budgets and Budgetary Accounting - continued

    c. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). 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 not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amounts appropriated.

    d. The budgets are legally adopted at the functional level; however, they are maintained at the object level for control purposes. Any revisions that alter the total expenditures at the functional level must be approved by the School Board.

    e. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.

    f. The budget, as presented, has been amended in a legally permissible manner. Supplemental appropriations were made during the year with the final amendments being approved June 26, 2017.

6. Cash, Cash Equivalents, and Investments

Cash and cash equivalents consist of checking, savings, money market accounts, uncategorized pooled investment funds, and debt securities with an original maturity of ninety (90) days or less. Cash equivalents are recorded at market (fair) value.

Investments consist of mortgage-related securities with an original maturity of more than ninety (90) days. All investments are recorded at market (fair) value.

7. Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as “due from other funds” and “due to other funds” on the governmental funds balance sheet.

8. Due From Other Governmental Units

Due from other governmental units consists of various amounts owed to the District for grant programs and State Aid payments. The State of Michigan’s funding stream of State Aid payments results in the final two (2) payments for the fiscal year ended June 30, 2017, to be paid in July and August 2017. Of the total amount of $3,738,436 due from other governmental units in the district-wide financial statements, $3,652,775 consists of State Aid, $26,080 in accrued interest receivable from the Federal Subsidy program (this amount is only recorded at the district-wide level), and $59,581 from other grants and local programs.

9. Inventory

Inventories are stated at cost on a first in/first out basis. The Food Service Fund inventory mainly consists of food and miscellaneous paper goods. Inventory that will be sold, rather than used in providing services (i.e., food in the Food Service Fund), and for which the proceeds from the sales are restricted for food service activities are not classified as “nonspendable” but instead are reflected as a component of restricted fund balance in accordance with GASB Statement No. 54. The General Fund inventory consists of paper. General Fund inventory amounts are equally offset by a nonspendable fund balance in the fund financial statements which indicates that they do not constitute “available spendable resources” even though they are a component of fund balance.

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

10. Prepaids

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both district-wide and fund financial statements. Reported prepaid expenditures are equally offset by nonspendable fund balance which indicates they do not constitute "available spendable resources" even though they are a component of fund balance.

11. Capital Assets

Capital assets are recorded (net of accumulated depreciation, if applicable) in the district-wide financial statements. Capital assets are those with an initial individual cost greater than $5,000 and an estimated useful life of more than one (1) year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the district-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Buildings and building improvements	5-50 years
Buses and other vehicles	5-10 years
Furniture and equipment	3-20 years

12. Deferred Outflows/Inflows of Resources

In addition to assets and liabilities, the statement of functional position or balance sheet will, when applicable, report separate sections for deferred outflows of resources and deferred inflows of resources. *Deferred outflows of resources*, a separate financial statement element, represents a consumption of net position or fund balance, respectively, that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until that time. *Deferred inflows of resources*, a separate financial statement element, represents an acquisition of net position or fund balance, respectively, that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The District has several items that qualify for reporting in these categories and are reported in the district-wide financial statements of net position.

The District reports deferred outflows of resources for the deferred charges on refunding which resulted 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.

The District also reports items in both categories, deferred outflows of resources and deferred inflows of resources, which correspond to the District's net pension liability and are related to differences between expected and actual experience, changes in assumptions, differences between projected and actual pension plan investment earnings, state aid related to pensions, and contributions made subsequent to the measurement date. These amounts are deferred and recognized as an outflow or inflow of resources in the period to which they apply.

13. Unearned Revenues

The unexpended balance of various federal and/or state categorical and local grants is carried forward as unearned revenue until the period in which eligible expenditures are incurred. Other monies collected in advance are also presented as unearned. These same amounts have been shown as "unearned revenue" on the Statement of Net Position and the Balance Sheet, when applicable, to indicate that the revenue has not been recognized because it has not been earned.

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

14. Short-Term Note Obligations

Short-term debt is recognized as a liability of a governmental fund and is included on the balance sheet of the applicable fund. During the current year, the District paid off the short-term note that was outstanding at the beginning of the year and subsequently borrowed funds to meet short-term cash flow borrowing needs. The final payment on the new borrowing is due and payable in August 2017 and anticipated State Aid is expected to be sufficient to cover this commitment.

15. Accrued Interest Payable

Accrued interest payable, related to long-term obligations in the district-wide financial statements, is due within one (1) year and is reported as a current liability in the district-wide financial statements.

16. Compensated Absences

Based on the requirements of GASB Statement No. 16, *Accounting for Compensated Absences*, the District has recorded all liabilities associated with compensated absences. Accumulated compensated absence amounts to be paid at termination are considered as payable from future resources and are recorded, along with the related payroll taxes, as current and noncurrent liabilities in the district-wide financial statements.

17. Long-term Obligations

Long-term debt is recognized as a liability in the district-wide statements when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as noncurrent.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in the Debt Service Funds for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a liability of a governmental fund.

18. Net Pension Liability

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 pension of the Michigan Public School Employees Retirement System (MPSERS) and additions to/deductions from MPSERS fiduciary net position have been determined on the same basis as they are reported by MPSERS. 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.

19. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied as of December 1 and are due upon receipt of the billing by the taxpayer. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. School district property tax revenues are recognized when levied to the extent that they result in current revenue (collected as of year-end). Amounts received subsequent to June 30 are recognized as revenue when collected.

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

19. Property Taxes - continued

The District levies taxes for the General Fund of $17.9262 per $1,000 of taxable valuation on nonprimary residence exempt property (2016 value $158,894,443) and $5.9262 per $1,000 of taxable valuation on commercial personal property (2016 value $9,439,600) for general governmental services, $8.15 per $1,000 of taxable valuation on the total applicable taxable valuation of all property within the District for debt service, and $1.00 per $1,000 of taxable valuation on the total applicable taxable valuation of all property within the District for a sinking fund. The District is also permitted to levy additional amounts for enhancement and/or debt service if voter approval is obtained. Total 2016 taxable value of the District, which was used for the basis of the tax revenue for the applicable Debt Service and Sinking funds, was $555,574,667.

20. State Foundation Revenue

Beginning with the fiscal year ended June 30, 1995, the State of Michigan adopted a foundation grant approach, which provides for a specific annual amount of revenue per student based on a statewide formula. Prior to the fiscal year ended June 30, 1995, the State utilized a district power equalizing approach. 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 the average of pupil membership counts taken in September 2016 and February 2016. The average calculation was weighted 90% for the September 2016 count and 10% for the February 2016 count.

The State portion of the foundation is provided primarily by a State education property tax millage of 6 mills and an allocated portion of State sales and other taxes. The local portion of the foundation is funded primarily by nonhomestead property taxes, which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period (currently the fiscal year) and is funded through nine (9) payments made during the fiscal year and two (2) payments made subsequent to year-end. The local revenue is recognized as outlined above under Property Taxes.

21. Interfund Transactions

Interfund transactions are reported as either loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers on the governmental fund financial statements. Transfers are netted as part of the reconciliation to the district-wide financial statements.

22. Tax Abatements

The District's tax revenues have been reduced by tax abatements. Management has determined these amounts to be immaterial to the financial statements.

23. Federal Programs

Federal programs are accounted for in the specific governmental funds to which they relate. The District has not integrated its Single Audit reports and financial data as part of the financial statements. The Single Audit reports and financial data will be issued under a separate cover as supplementary information to the financial statements.

24. Comparative Data

Comparative data for the prior year has not been presented in the basic financial statements since their inclusion would make the statements unduly complex and difficult to read.

NOTE B: DEPOSITS AND INVESTMENTS

In accordance with Michigan Public Act 451 of 1976, Section 1223(1), as amended, the District is authorized to invest its surplus funds in the following types of investments:

1. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State.
2. Certificates of deposit issued by a State or National bank, savings accounts of a State or Federal savings and loan association, or certificates of deposit or share certificates of a State or Federal credit union organized and authorized to operate in this State.
3. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
4. Securities issued or guaranteed by agencies or instrumentalities of the United States government.
5. United States government or federal agency obligation repurchase agreements.
6. Bankers' acceptances issued by a bank that is a member of the Federal Depository Insurance Corporation.
7. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
8. Investment pools, as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a school district.

Michigan Public Acts authorize school districts in Michigan to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations. Deposits of the District are at federally insured banks and credit unions in the State of Michigan in the name of the District.

Deposits

There is custodial credit risk as it relates to deposits if they are not federally insured. 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, the carrying amount of the District's deposits was $6,852,431 and the bank balance was $6,951,386, of which $509,387 was covered by federal depository insurance. The balance of $6,441,999 was uninsured and uncollateralized. The District had $3,074 of cash on hand.

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value hierarchy is also established which requires an entity to maximize the use of observable and minimize the use of unobservable inputs. There are three (3) levels of inputs that may be used to measure fair value:

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

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

NOTE B: DEPOSITS AND INVESTMENTS - CONTINUED

Fair Value Measurements - continued

Level 3: Prices determined using significant unobservable inputs. Unobservable inputs may be used in situations where quoted prices or observable inputs are unavailable or deemed less relevant (for example, when there is little or no market activity for an investment at the end of the period). Unobservable inputs reflect the organization's own assumptions about the factors market participants would use in pricing an investment, and would be based on the best information available.

Investments

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying consolidated financial statements, as well as the general classification of such instruments pursuant to the valuation hierarchy.

The District had the following fair value measurements as of June 30, 2017:

	Fair Value Measurements					
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total	Weighted Average Maturity	S&P Rating
Debt securities						
Mortgage-related securities	$ -	$ 26,859,155	$ -	$ 26,859,155	144 days	AA+
Uncategorized pooled investment funds						
MILAF+	-	6,231,253	-	6,231,253	< 60 days	AAAm
Total investments at fair value	$ -0-	$ 33,090,408	$ -0-	$ 33,090,408		

The District participates in the Michigan Liquid Asset Fund Plus (MILAF+), the portfolio securities are valued at amortized cost, which approximates market value. The amortized cost method involves valuing a security at its cost on the date of purchase and recording a constant amortization or accretion to maturity of any discount or premium. It is MILAF+'s policy to compare amortized cost and fair values of the securities periodically throughout each month and as of the last business day of each month. Fair value is determined by reference to quoted market prices. MILAF+'s annual financial statement may be obtained at www.milaf.org.

Credit Risk

State law limits investments in certain types of investments to a prime or better rating issue by nationally recognized statistical rating organizations (NRSRO'S). As of June 30, 2017, rating information on the District's investments is presented above.

Interest Rate Risk

The District has adopted a policy that indicates how 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 limiting the weighted average maturity of its investment portfolio to less than a given period of time.

NOTE B: DEPOSITS AND INVESTMENTS - CONTINUED

Concentration of Credit Risk

The District has adopted a policy that indicates how 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

The District has adopted a policy that indicates how the District will minimize custodial credit risk. Custodial credit risk is the risk of loss due to the failure of the security issuer or backer. The Board policy limits investments to the types of securities authorized by the Board and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business in accordance with the Board approved policy.

As of June 30, 2017, the cash and cash equivalents referred to above have been reported in the cash and cash equivalents caption in the basic financial statements as follows:

	Governmental Activities	Fiduciary Fund	Total
Cash and cash equivalents	$ 12,670,399	$ 416,359	$ 13,086,758
Investments - current	22,909,576	-	22,909,576
Investments - noncurrent	3,949,579	-	3,949,579
	$ 39,529,554	$ 416,359	$ 39,945,913

NOTE C: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

Transfer to nonmajor governmental funds from:	
General Fund	$ 96,154

The transfer from the General Fund to the nonmajor governmental funds was to cover operational costs.

NOTE D: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017, was as follows:

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017
Capital assets not being depreciated				
Land	$ 53,410	$ -	$ -	$ 53,410
Construction in progress	1,751,414	11,439,769	-	13,191,183
Total capital assets not being depreciated	1,804,824	11,439,769	-0-	13,244,593
Capital assets being depreciated				
Buildings and building improvements	47,641,591	198,965	-	47,840,556
Buses and other vehicles	2,639,709	-	-	2,639,709
Furniture and equipment	7,319,888	-	-	7,319,888
Total capital assets being depreciated	57,601,188	198,965	-0-	57,800,153
Less accumulated depreciation for:				
Buildings and building improvements	(23,562,570)	(1,146,980)	-	(24,709,550)
Buses and other vehicles	(2,150,729)	(119,661)	-	(2,270,390)
Furniture and equipment	(6,607,612)	(283,381)	-	(6,890,993)
Total accumulated depreciation	(32,320,911)	(1,550,022)	-0-	(33,870,933)
Net capital assets being depreciated	25,280,277	(1,351,057)	-0-	23,929,220
Capital assets, net	$ 27,085,101	$ 10,088,712	$ -0-	$ 37,173,813

Depreciation expense was not allocated to governmental functions. It appears on the statement of activities as "unallocated".

NOTE E: SHORT-TERM NOTES

On August 20, 2015, the School issued a short-term State School Aid Anticipation Note in the amount of $4,100,000 for the purpose of funding operating expenditures until the 2016 State Aid payments began. This short-term note, which had a net outstanding balance of $4,136,306 (principal and accrued interest payable) at June 30, 2016, was reported in the financial statements under the caption short-term note payable. The funds to make the payment due came from State Aid and other local sources. The outstanding balance was paid in August 2016.

On August 20, 2016, the District issued a short-term State School Aid Anticipation Note in the amount of $3,050,000 for the purpose of funding operating expenditures until the 2017 State Aid payments began. This short-term note, which had a net outstanding balance of $3,073,310 (principal and accrued interest payable) at June 30, 2017, was reported in the financial statements under the caption short-term note payable. The outstanding balance was paid in August 2017.

NOTE F: LONG-TERM DEBT

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

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017	Amounts Due within One Year
2009 Refunding Bonds	$ 3,000,000	$ -	$ (1,510,000)	$ 1,490,000	$ 1,490,000
2010 School Building and Site Bonds	3,200,000	-	-	3,200,000	-
2015 Refunding Bonds	4,160,000	-	(515,000)	3,645,000	600,000
2016 Refunding Bonds	2,820,000	-	-	2,820,000	-
2016 Building and Site Bonds	39,710,000	-	(275,000)	39,435,000	500,000
Energy Conservation Bonds	1,242,999	-	(178,753)	1,064,246	196,175
Capital lease - buses	189,453	-	(53,948)	135,505	135,505
Installment loan - technology	69,848	-	(69,848)	-0-	-
Installment loan - buses	216,720	-	(54,180)	162,540	54,180
Capitalized bond premiums	6,662,905	-	(301,056)	6,361,849	301,056
Compensated absences	419,555	125,556	(178,405)	366,706	155,932
	$ 61,691,480	$ 125,556	$ (3,136,190)	$ 58,680,846	$ 3,432,848

General Obligation Bonds

$12,125,000 2009 Refunding Bonds due in an annual principal installment of $1,490,000 on May 1, 2018, with interest of 3.50 percent, payable semi-annually.	$ 1,490,000
$3,200,000 2010 School Building and Site Bonds, due in annual principal installments of $400,000 from May 1, 2019, through May 1, 2026, with interest ranging from 5.00 to 5.25 percent, payable semi-annually.	3,200,000
$4,600,000 2015 Refunding Bonds due in annual principal installments, ranging from $600,000 to $780,000 through May 1, 2022, with an interest rate of 2.00 percent, payable semi-annually.	3,645,000
$2,820,000 2016 Refunding Bonds due in annual principal installments, ranging from $690,000 to $715,000 from May 1, 2023, through May 1, 2026, with an interest rate of 4.00 percent, payable semi-annually.	2,820,000
$39,710,000 2016 Building and Site Bonds due in annual principal installments, ranging from $500,000 to $2,450,000 through May 1, 2040, with interest ranging from 3.25 to 5.00 percent, payable semi-annually.	39,435,000
$2,079,765 2007 Energy Conservation Bonds due in semi-annual installments ranging from $29,108 to $134,462 through May 24, 2022, with an interest rate of 4.02 percent, payable semi-annually.	1,064,246
	$ 51,654,246

NOTE F: LONG-TERM DEBT - CONTINUED

Capital Lease

$402,128 School Bus capital lease payable, dated August 15, 2012, due a final payment on August 15, 2017, with an interest rate of 2.58 percent, payable annually. The cost of the vehicles under the lease purchase agreement amounted to $402,128. The lease purchase agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of future minimum lease payments as of the date of inception.	$ 135,505

Installment Loans

$325,084 Buses Installment Loan, dated December 1, 2014, due in annual installments of $54,180 through December 22, 2019, with an interest rate of 1.97 percent, payable annually.	$ 162,540

Advance Refunding - Prior

On March 31, 2005, the District defeased the portion of the 2001 School Building and Site Bonds which were due and payable May 1, 2012 through May 1, 2022. This was accomplished by establishing an irrevocable trust with an escrow agent composed of cash and U.S. government securities sufficient to meet the applicable principal and interest obligations. The District issued General Obligation 2005 Refunding Bonds in the amount of $6,575,000 to provide resources to fund the escrow amounts and pay the costs of issuance of the refunding bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the District's financial statements. At June 30, 2017, bonds due and payable May 1, 2018 through May 1, 2022, for the 2001 School Building and Site Bonds in the amount of $3,650,000 are considered defeased.

On March 9, 2006, the District defeased the portion of the 2001 School Building and Site Bonds which are due and payable May 1, 2023 through May 1, 2026. This was accomplished by establishing an irrevocable trust with an escrow agent composed of cash and U.S. government securities sufficient to meet the applicable principal and interest obligations. The District issued General Obligation 2006 Refunding Bonds in the amount of $3,190,000 to provide resources to fund the escrow amounts and pay the costs of issuance of the refunding bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the District's financial statements. At June 30, 2017, bonds due and payable May 1, 2023 through May 1, 2026, for the 2001 School Building and Site Bonds in the amount of $3,025,000 are considered defeased.

On September 29, 2009, the District defeased the 1998 Refunding Bonds and the 1999 Refunding Bonds which were due and payable May 1, 2018. This was accomplished by establishing an irrevocable trust with an escrow agent composed of cash and U.S. government securities sufficient to meet the applicable principal and interest obligations. The District issued General Obligation 2009 Refunding Bonds in the amount of $12,125,000 to provide resources to fund the escrow amounts and pay the costs of issuance of the refunding bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the District's financial statements. At June 30, 2017, bonds due and payable on May 1, 2018, for the 1998 Refunding Bonds and the 1999 Refunding Bonds in the amount of $1,575,000 are considered defeased.

On March 24, 2015, the District defeased the portion of the 2005 Refunding Bonds which were due and payable May 1, 2016 through May 1, 2022. This was accomplished by establishing an irrevocable trust with an escrow agent composed of cash and U.S. Government Securities sufficient to meet the applicable principal and interest payments. The District issued General Obligation 2015 Refunding Bonds in the amount of $4,600,000 to provide resources to fund the escrow amounts and pay the costs of issuance of the refunding bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the District's financial statements. At June 30, 2017, bonds due and payable May 1, 2018 through May 1, 2022, for the 2005 Refunding Bonds in the amount of $3,640,000 are considered defeased.

NOTE F: LONG-TERM DEBT - CONTINUED

Advance Refunding - Prior - continued

On March 3, 2016, the District defeased the portion of the 2006 Refunding Bonds which were due and payable May 1, 2019 through May 1, 2026. This was accomplished by establishing an irrevocable trust with an escrow agent composed of cash and U.S. Government Securities sufficient to meet the applicable principal and interest payments. The District issued General Obligation 2016 Refunding Bonds in the amount of $2,820,000 to provide resources to fund the escrow amounts and pay the costs of issuance of the refunding bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the District's financial statements. At June 30, 2017, bonds due and payable May 1, 2023 through May 1, 2026, for the 2006 Refunding Bonds in the amount of $3,190,000 are considered defeased.

Compensated Absences

In recognition of services to the District, a severance payment is made to eligible employees according to their respective employment contracts.

Under GASB Statement No. 16 requirements, the District has elected to implement the "vesting" method of calculating the compensated absences liability. The amounts accumulated for all employees currently vested are calculated along with an amount for other employees who currently are not vested but are probable to vest in future years. The amounts for employees who currently are not vested are calculated taking total unused sick pay amounts at June 30, 2017, for all nonvested employees and multiplying it by a historical termination percentage. This percentage is based on an estimate of the percentage of employees who have terminated employment fully vested in the past five (5) years.

A summary of the calculated amounts of compensated absences related to compensated absences and related payroll taxes as of June 30, 2017, which have been recorded in the district-wide financial statements, is as follows:

	Vested Employees	Nonvested Employees	Total
Compensated absences	$ 303,567	$ 37,080	$ 340,647
Payroll taxes	23,223	2,836	26,059
	$ 326,790	$ 39,916	$ 366,706

The annual requirements to pay the debt principal and interest outstanding for the long-term debt are as follows:

	General Obligation Bonds	
Year Ending June 30,	Principal	Interest
2018	$ 2,786,175	$ 2,179,031
2019	2,479,710	2,112,888
2020	2,574,420	2,014,213
2021	2,670,371	1,920,533
2022	2,648,570	1,821,798
2023-2027	12,020,000	7,693,225
2028-2032	8,775,000	5,718,250
2033-2037	10,500,000	3,412,500
2038-2040	7,200,000	726,250
	$ 51,654,246	$ 27,598,688

NOTE F: LONG-TERM DEBT - CONTINUED

Year Ending June 30,	Installment Loans Principal	Installment Loans Interest	Capital Lease Principal	Capital Lease Interest
2018	$ 54,180	$ 3,202	$ 135,505	$ 3,495
2019	54,180	2,135	-	-
2020	54,180	1,067	-	-
	$ 162,540	$ 6,404	$ 135,505	$ 3,495

The 2010 School Building and Site Bonds gross interest payments due are reflected as part of the above annual requirements for the general obligation bonds. These bonds were issued under the Federal government's "Build America Bonds" program. It is the expectation of the District that through this program they will receive an interest subsidy credit payment from the Federal government each time interest payments are made on these bonds. The above schedule, in relation to the 2010 Series Bonds, includes a cumulative gross amount of interest due of $904,000. Of this amount, there is an expected interest subsidy to be received over the life of the bonds in the cumulative amount of $860,640, and net interest owed by the District over the life of the bonds of $43,360.

NOTE G: EMPLOYEE RETIREMENT SYSTEM

PLAN DESCRIPTION

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

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

The System's financial statements are available at www.michigan.gov/mpsers-cafr.

BENEFITS PROVIDED

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Depending on the plan option selected, member retirement benefits for are determined by final average compensation, years of service, and a pension factor ranging from 1.25 percent to 1.50 percent. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

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

NOTE G: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

CONTRIBUTIONS AND FUNDED STATUS

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

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

The schedule below summarizes pension contribution rates in effect for ORS' 2016 fiscal year.

Pension Contribution Rates

Benefit Structure	Member	Employer
Basic	0.0 - 4.0 %	18.95 %
Member Investment Plan	3.0 - 7.0	18.95
Pension Plus	3.0 - 6.4	17.73
Defined Contribution	0.0	14.56

Required contributions to the pension plan from the District were $3,187,164 for the year ended September 30, 2016.

NET PENSION LIABILITY - NON-UNIVERSITY

Measurement of the MPSERS Net Pension Liability

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

MPSERS (Plan) Net Pension Liability - Non-University
As of September 30, 2016

Total Pension Liability	$ 67,917,445,078
Plan Fiduciary Net Position	42,968,263,308
Net Pension Liability	$ 24,949,181,770
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	63.27%
Net Pension Liability as a percentage of Covered-Employee Payroll	295.81%

NOTE G: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

NET PENSION LIABILITY - NON-UNIVERSITY - CONTINUED

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

At June 30, 2017, the District reported a liability of $35,410,950 for its proportionate share of the MPSERS 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 rolled forward from September 2015. The District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2016, the District's proportion was 0.14193231 percent, which was an increase of 0.00376286 percent from its proportion measured as of September 30, 2015.

For the year ended June 30, 2017, the District recognized total pension expense of $3,750,449. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 441,314	$ 83,925
Net difference between projected and actual earnings on pension plan investments	588,530	-
Changes of assumptions	553,622	-
Changes in proportion and differences between the District's contributions and proportionate share of contributions	1,264,430	91,954
State aid related to pensions	-	1,108,517
District's contributions subsequent to the measurement date	1,929,652	-
Total	$ 4,777,548	$ 1,284,396

$1,929,652 reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. $1,108,517 reported as deferred inflows of resources under the caption State Aid related to pensions will be recognized as an increase to State Aid revenue in the year ended June 30, 2018. Other amounts as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended September 30,	Amount
2017	$ 654,202
2018	607,928
2019	1,168,196
2020	241,691

NOTE G: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

NET PENSION LIABILITY - NON-UNIVERSITY - CONTINUED

Actuarial Assumptions

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

Additional information as of the latest actuarial valuation follows:

Valuation Date:	September 30, 2015
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	3.5%
Investment Rate of Return	
- MIP and Basic Plans (Non-Hybrid):	8.0%
- Pension Plus Plan (Hybrid):	7.0%
Projected Salary Increases:	3.5 - 12.3%, including wage inflation at 3.5%
Cost-of-Living Pension Adjustments:	3% Annual Non-Compounded for MIP Members
Mortality:	RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. For Retirees, 100% of the table rates were used. For active members, 80% of the tables were used for males and 70% of the tables were used for females.

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2016, are summarized in the following table:

Investment Category	Target Allocation	Long-term Expected Real Rate of Return
Domestic Equity Pools	28.0%	5.9%
% Alternative Investment Pools	18.0%	9.2%
International Equity	16.0%	7.2%
Fixed Income Pools	10.5%	0.9%
Real Estate and Infrastructure Pools	10.0%	4.3%
Absolute Return Pools	15.5%	6.0%
Short Term Investment Pools	2.0%	0.0%
Total	100%	

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

NOTE G: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

NET PENSION LIABILITY - NON-UNIVERSITY - CONTINUED

Discount Rate

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

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

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

	1% Decrease (Non-Hybrid/Hybrid) 7.0% / 6.0%	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid) 8.0% / 7.0%	1% Increase (Non-Hybrid/Hybrid) 9.0% / 8.0%
District's proportionate share of the net pension liability	$ 45,600,390	$ 35,410,950	$ 26,820,272

Defined Contribution Plan

Benefit provisions of MPSERS also requires the District to contribute to a defined contribution tax-deferred investment account for all eligible employees. The District is required to match 50% of an employee's contributions up to 1% of an employee's salary. The retirement benefits are determined by the final average compensation and years of service with disability and survivor benefits available to members. The District contribution for the year ended June 30, 2017, was $36,769.

NOTE H: OTHER POST-EMPLOYMENT BENEFITS

PLAN DESCRIPTION

The Michigan Public School Employees' Retirement System (MPSERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. MPSERS issues a publicly available Comprehensive Annual Financial Report that can be obtained at http://michigan.gov/orsschools/0,1607,7-206-36585---,00.html.

NOTE H: OTHER POST-EMPLOYMENT BENEFITS - CONTINUED

PLAN DESCRIPTION - CONTINUED

Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverage through MPSERS. Retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10.0 percent of the monthly premium amount for the health, dental, and vision coverage at the time of receiving the benefits. The MPSERS board of trustees annually sets the employer contribution rate to fund the benefits on a pay-as-you-go basis. Participating employers are required to contribute at that rate.

Contribution rates for the year ended June 30, 2017, are as follows:

	Health Contribution Rate	
	Basic/MIP	Pension Plus
July 1, 2016 - September 30, 2016	6.40 - 6.83%	6.40 - 6.83%
October 1, 2016 - June 30, 2017	5.69 - 5.91%	5.69 - 5.91%

The District's required and actual contributions to the various plans for the last three (3) fiscal years are as follows:

	Defined Benefit Plan	Defined Contribution Plan	
Fiscal Year Ending June 30,	Employer Health Contributions	Employer Health Contributions	Employee Health Contributions
2017	$ 754,063	$ 53,997	$ 53,997
2016	653,020	43,386	43,386
2015	390,555	24,301	50,361

NOTE I: RISK MANAGEMENT

The District participates in a pool, the MASB-SEG Property and Casualty Pool with other school districts for property, equipment breakdown (boiler and machinery), fleet, liability, cyber liability/data breach, employee dishonesty, in-land marine, crime, and errors and omissions. The pool is organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self-insurance pool. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The District has not been informed of any special assessments being required.

The District also participates in a pool, the SEG Self-Insurer Workers' Compensation Fund, with other school districts for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The District has not been informed of any special assessments being required.

NOTE J: SINKING FUND

The Sinking Fund Capital Project Fund of the District records capital project activities funded by a voted sinking fund millage as well as other local dollars (i.e., interest, etc.). For the expenditures recorded within this Capital Project Fund, the District has complied with the applicable provisions of Section 1212 of the Revised School Code.

NOTE K: BONDED CONSTRUCTION FUND

The Building and Site Capital Projects Fund of the District includes the capital projects activities funded in part by the 2016 School Building and Site General Obligation Bonds. The remaining funding for the activities recorded within the capital project fund is funded by other local dollars (i.e., interest, etc.). For these capital projects recorded within the Building and Site Capital Projects Fund, the District has complied with the applicable provisions of Section 1351(a) of the Revised School Code in the current and prior years.

NOTE L: CONTINGENT LIABILITIES

The District participates in a number of Federal and State assisted grant programs that are subject to compliance audits. The Single Audit of the Federal Programs and the periodic program compliance audits of many of the programs have not yet been completed or final resolution has not been received. Accordingly, the District's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

NOTE M: RESTRICTED NET POSITION

Restrictions of net position shown in the government-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes. The following are the various net position restrictions as of June 30, 2017:

Governmental activities	
Restricted	
Capital projects	$ 978,060
Debt service	965,114
	$ 1,943,174

NOTE N: CONTRACTUAL COMMITMENT

The District has entered into contracts related to various updates throughout the District that were not completed at June 30, 2017. The total contractual commitments outstanding at June 30, 2017, totaled $22,946,998. The District's fund balance, along with future anticipated revenues are expected to be sufficient to cover these commitments.

NOTE O: DETAILS OF FUND BALANCES CLASSIFICATIONS

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, established fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The following are the five (5) fund balance classifications under this standard:

Nonspendable - assets that are not available in a spendable form such as inventory, prepaid expenditures, and long-term receivables not expected to be converted to cash in the near term. It also includes funds that are legally or contractually required to be maintained intact such as the corpus of a permanent fund or foundation.

Restricted - amounts that are required by external parties to be used for a specific purpose. Constraints are externally imposed by creditors, grantors, contributors, laws, regulations, or enabling legislation.

Committed - amounts constrained on use imposed by formal action of the government's highest level of decision making authority (i.e., Board, Council, etc.).

NOTE O: DETAILS OF FUND BALANCES CLASSIFICATIONS - CONTINUED

Assigned - amounts intended to be used for specific purposes. This is determined by the governing body, the budget or finance committee or a delegated municipality official.

Unassigned - all other resources; the remaining fund balance after nonspendable, restrictions, commitments, and assignments. This class only occurs in the General Fund, except for cases of negative fund balances. Negative fund balances are always reported as unassigned, no matter which fund the deficit occurs in.

Fund Balance Classification Policies and Procedures

For committed fund balance, the District's highest level of decision-making authority is the District's Board of Education. The formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a resolution by the Board.

For assigned fund balance, the Board is authorized to assign amounts to a specific purpose. The authorization policy is a vote and approval by the Board.

For the classification of fund balance amounts, the District's policy is to spend restricted amounts first, then unrestricted amounts when both restricted and unrestricted amounts are available. Similarly, the Districts policy is to spend committed amounts first, and then assigned amounts and finally unassigned amounts when any of those unrestricted fund balance classifications could be used.

	General Fund	Debt Service Fund	Building and Site Fund	Nonmajor Governmental Funds	Total
Fund Balances					
Nonspendable					
Inventory	$ 13,131	$ -	$ -	$ -	$ 13,131
Prepaids	11,180	-	-	-	11,180
Restricted					
Food and nutrition	-	-	-	20,402	20,402
Community center	-	-	-	476	476
Capital projects	-	-	31,429,122	493,749	31,922,871
Debt service	-	1,321,546	-	-	1,321,546
Committed					
Capital projects	525,500	-	-	-	525,500
Unassigned	2,099,724	-	-	-	2,099,724
	$ 2,649,535	$ 1,321,546	$ 31,429,122	$ 514,627	$ 35,914,830

NOTE P: SUBSEQUENT EVENTS

Subsequent to the year ended June 30, 2017, the following events occurred:

On August 21, 2017, the District issued a State School Aid Anticipation Note in the amount of $3,000,000 for the purpose of funding operating expenditures until the fiscal year 2018 State Aid payments begin. This short-term note will be paid off when the District accumulates sufficient State Aid revenues at the end of next fiscal year. Future anticipated State Aid and other local funds are expected to be sufficient to cover this commitment.

On August 3, 2017, the District entered into an installment purchase agreement in the amount of $435,709 for the purchase of five new school buses. The loan is due in annual installments of $90,548 including interest of 1.69%. Total principal and interest amounts to $452,739.

NOTE Q: UPCOMING ACCOUNTING PRONOUNCEMENTS

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The Statement replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The Statement requires governments providing other postemployment benefits (OPEB) to recognize their unfunded OPEB obligation as a liability for the first time, and to more comprehensibly and comparably measure the annual costs of OPEB benefits. The Statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI). The District is currently evaluating the impact this standard will have on the financial statement when adopted during the 2017-2018 fiscal year.

In March 2016, the GASB issued Statement No. 82, *Pension Issues - An Amendment of GASB Statements No. 67, No. 68, and No. 73*. The Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The District is currently evaluating the impact this standard will have on the financial statements when adopted during the 2017-2018 fiscal year.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The Statement establishes criteria for identifying fiduciary activities for all state and local governments, focusing on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries for whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The District is currently evaluating the impact this standard will have on the financial statements when adopted during the 2019-2020 fiscal year.

In June 2017, the GASB issued Statement No. 87, *Leases*. The Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The District is currently evaluating the impact this standard will have on the financial statements when adopted during the 2020-2021 fiscal year.

REQUIRED SUPPLEMENTARY INFORMATION

Hastings Area School System

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2017

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Local sources	$ 3,285,486	$ 3,322,610	$ 3,323,641	$ 1,031
State sources	17,957,280	20,063,169	20,066,290	3,121
Federal sources	738,625	795,358	802,353	6,995
TOTAL REVENUES	21,981,391	24,181,137	24,192,284	11,147
EXPENDITURES				
Instruction				
Basic needs	10,627,591	11,618,732	11,563,006	55,726
Added needs	3,569,464	3,788,960	3,714,340	74,620
Total instruction	14,197,055	15,407,692	15,277,346	130,346
Supporting services				
Pupil services	251,003	382,548	394,631	(12,083)
Instructional staff	563,050	738,053	722,659	15,394
General administration	289,490	301,429	292,580	8,849
School administration	1,470,338	1,737,090	1,726,842	10,248
Business services	547,050	585,314	563,082	22,232
Technology	663,926	617,343	612,375	4,968
Operations and maintenance	2,214,247	2,785,384	2,784,921	463
Transportation	867,653	955,662	954,001	1,661
Athletics	437,444	495,107	489,052	6,055
Total supporting services	7,304,201	8,597,930	8,540,143	57,787
Community services	16,013	8,778	7,430	1,348
Debt service	415,672	415,484	415,482	2
TOTAL EXPENDITURES	21,932,941	24,429,884	24,240,401	189,483
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	48,450	(248,747)	(48,117)	200,630
OTHER FINANCING SOURCES (USES)				
County special education allocation	65,000	69,500	69,514	14
Transfers to other funds	(71,000)	(85,000)	(96,154)	(11,154)
TOTAL OTHER FINANCING SOURCES (USES)	(6,000)	(15,500)	(26,640)	(11,140)
NET CHANGE IN FUND BALANCE	42,450	(264,247)	(74,757)	189,490
Fund balance, beginning of year	2,724,292	2,724,292	2,724,292	-0-
Fund balance, end of year	$ 2,766,742	$ 2,460,045	$ 2,649,535	$ 189,490

Hastings Area School System

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY

Michigan Public School Employee Retirement Plan

Last Three Measurement Dates (ultimately ten years will be displayed)
(Amounts were determined as of 9/30 of each fiscal year)

	2016	2015	2014
District's proportion of net pension liability (%)	0.14193%	0.13817%	0.13440%
District's proportionate share of net pension liability	$ 35,410,950	$ 33,747,925	$ 29,603,552
District's covered employee payroll	$ 12,156,137	$ 11,559,272	$ 11,300,874
District's proportionate share of net pension liability as a percentage of its covered employee payroll	291.30%	291.96%	261.96%
Plan fiduciary net position as a percentage of total pension liability	63.27%	63.17%	66.20%

Hastings Area School System

SCHEDULE OF CONTRIBUTIONS

Michigan Public School Employee Retirement Plan

Last Three Fiscal Years (ultimately ten fiscal years will be displayed)
(Amounts were determined as of 6/30 of each fiscal year)

	2017	2016	2015
Statutorily required contributions	$ 3,562,534	$ 3,074,986	$ 2,512,793
Contributions in relation to statutorily required contributions	3,562,534	3,074,986	2,512,793
Contribution deficiency (excess)	$ -0-	$ -0-	$ -0-
District's covered employee payroll	$ 11,736,465	$ 11,703,848	$ 11,417,916
Contributions as a percentage of covered employee payroll	30.35%	26.27%	22.01%

NOTE A: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amount appropriated.

During the year ended June 30, 2017, the District incurred expenditures in excess of the amounts appropriated as follows:

	Amounts Appropriated	Amounts Expended	Variance
General Fund			
Current			
Supporting services			
Pupil services	$ 382,548	$ 394,631	$ 12,083
Transfers to other funds	85,000	96,154	11,154

NOTE B: MICHIGAN PUBLIC SCHOOL EMPLOYEE RETIREMENT PLAN

Changes of benefit terms: There were no changes of benefit terms in plan year 2016.

Changes of assumptions: There were no changes of benefit terms in plan year 2016.

OTHER SUPPLEMENTARY INFORMATION

Hastings Area School System

Nonmajor Governmental Funds

COMBINING BALANCE SHEET

June 30, 2017

	Special Revenue		Capital Project	
	Food Service	Community Center	Sinking Fund	Total
ASSETS				
Cash	$ 17,554	$ 16,412	$ 493,749	$ 527,715
Accounts receivable	4,400	6,544	-	10,944
Due from other governmental units	13,134	2,778	-	15,912
Inventory	10,353	-	-	10,353
TOTAL ASSETS	$ 45,441	$ 25,734	$ 493,749	$ 564,924
LIABILITIES				
Accounts payable	$ 1,869	$ 20,896	$ -	$ 22,765
Accrued payroll	1,704	2,143	-	3,847
Accrued liabilities	12,299	2,219	-	14,518
Unearned revenue	9,167	-	-	9,167
TOTAL LIABILITIES	25,039	25,258	-0-	50,297
FUND BALANCES				
Restricted				
Food and nutrition	20,402	-	-	20,402
Community center	-	476	-	476
Capital projects	-	-	493,749	493,749
TOTAL FUND BALANCES	20,402	476	493,749	514,627
TOTAL LIABILITIES AND FUND BALANCES	$ 45,441	$ 25,734	$ 493,749	$ 564,924

Hastings Area School System

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended June 30, 2017

	Special Revenue		Capital Project	
	Food Service	Community Center	Sinking Fund	Total
REVENUES				
Local sources	$ 306,655	$ 611,805	$ 558,671	$ 1,477,131
State sources	46,503	-	-	46,503
Federal sources	603,349	-	-	603,349
TOTAL REVENUES	956,507	611,805	558,671	2,126,983
EXPENDITURES				
Current				
Food service	1,040,238	-	-	1,040,238
Community service	-	707,958	-	707,958
Capital outlay	-	-	315,843	315,843
TOTAL EXPENDITURES	1,040,238	707,958	315,843	2,064,039
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(83,731)	(96,153)	242,828	62,944
OTHER FINANCING SOURCES				
Transfers in	-	96,154	-	96,154
NET CHANGE IN FUND BALANCES	(83,731)	1	242,828	159,098
Fund balances, beginning of year	104,133	475	250,921	355,529
Fund balances, end of year	$ 20,402	$ 476	$ 493,749	$ 514,627