

HOUGHTON LAKE COMMUNITY SCHOOLS

**REPORT ON FINANCIAL STATEMENTS
(with required supplementary
and additional supplementary information)**

YEAR ENDED JUNE 30, 2015

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Houghton Lake Community Schools

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 Houghton Lake Community Schools, as of and for the year ended June 30, 2015, 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*, issue 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.

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 Houghton Lake Community Schools as of June 30, 2015, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principle

As discussed in Note 10 to the financial statements, Houghton Lake Community Schools implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*, and Governmental Accounting Standards Board Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Houghton Lake Community Schools' basic financial statements. The additional supplementary information, as identified in the table of contents, and schedule of expenditures of federal awards as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The additional supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such additional supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the additional supplementary information is fairly stated, in all material respects, in relation to the 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 26, 2015 on our consideration of Houghton Lake Community Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Houghton Lake Community Schools' internal control over financial reporting and compliance.

Maney Costeiran PC

October 26, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Houghton Lake Community Schools (HLCS) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2015. Please read it in conjunction with the District's financial statements, which immediately follow this section.

Generally accepted accounting principles (GAAP) require reporting two types of financial statements: district wide financial statements and fund financial statements.

For the year ended June 30, 2015 Houghton Lake Community Schools implemented Governmental Accounting Standards Board GASB Statements No. 68, *Accounting and Financial Reporting for Pensions*, and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. These changes are significant at the government-wide level.

These new financial reporting standards require participants in a multi-employer cost sharing plan to:

- Record a proportionate share of the net pension liability on our statement of net position.
- Record a proportionate share of pension expense as defined by GASB on our statement of activities.
- Report additional note disclosures and required supplementary information.
- These changes will not result in any changes at the fund level.

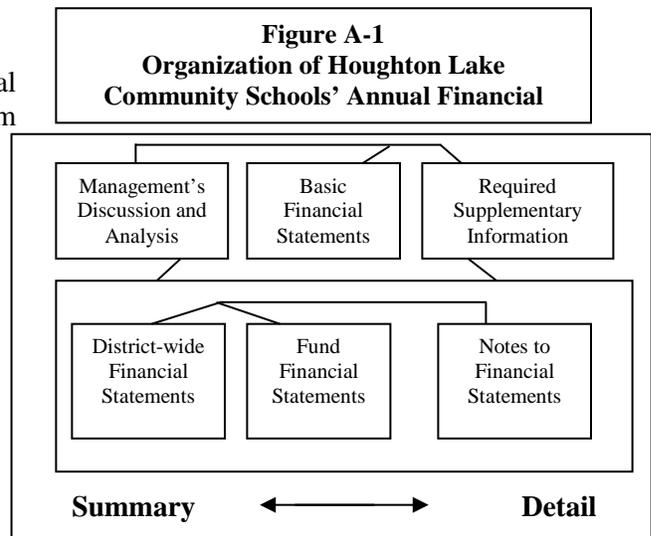
FINANCIAL OVERVIEW

- The District's general fund financial situation improved from the 2014 fiscal year to 2015.
- For the 2014-15 school year, general fund balance was increased by \$56,408.
- During the 2014-15 school year compared to 2013-14, general fund revenues increased by \$227,841 (1.60 percent), while expenditures increased by \$195,498 (1.38 percent).
- Student enrollment decreased by 78 students to 1,452 in the 2014 - 2015 school year. This represents a decrease of approximately 5 percent from the 2014 figure.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

- The first two statements are district-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide notes to financial statements.



- The governmental funds statements tell how basic services like instruction and support services were financed in the short-term as well as what remains for future spending.
- Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

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

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

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

DISTRICT-WIDE STATEMENTS

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

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

- Over time, increases or decreases in the District's net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

District-wide financial statements:

- Governmental activities - Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property taxes and state formula aid finance most of these activities.

FUND FINANCIAL STATEMENTS

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

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying debt, and its capital projects fund) or to show that it is properly using certain revenues (like school lunch).

The District has two kinds of funds.

- Governmental funds - Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out, and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information with the governmental funds statements that explain the relationship (or differences) between them.
- Fiduciary funds - The District is the trustee, or fiduciary, for assets that belong to others, such as the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net position - The District's combined net position at the beginning of the fiscal year as restated because of GASB Statements 68 and 71 implementation. Restricted net position represents legal constraints from debt covenants and legislation that limit the District's ability to use the net position for day-to-day operations. The following is a summary of the District's net position.

Table A-3 Houghton Lake Community Schools Net Position		
	2015	2014
Current and other assets	\$ 5,962,983	\$ 5,060,505
Capital assets and other	8,040,344	8,386,835
Total assets	<u>14,003,327</u>	<u>13,447,340</u>
Deferred outflows of resources	2,078,014	-
Noncurrent liabilities	6,747,163	7,511,822
Other liabilities	2,155,975	1,197,470
Net pension liability	17,832,362	-
Total liabilities	<u>26,735,500</u>	<u>8,709,292</u>
Deferred inflows of resources	1,971,375	-
Net position:		
Net investment in capital assets	1,335,192	1,363,979
Restricted for debt service	687,402	508,296
Restricted for food service	257,888	149,429
Unrestricted	(14,906,016)	2,716,344
Total net position	<u>\$ (12,625,534)</u>	<u>\$ 4,738,048</u>
The 2014 figures have not been updated for the adoption of GASB Statements 68 and 71		

Table A-4
Changes in Houghton Lake Community Schools' Net Position

	2015	2014
Revenues:		
Program revenues:		
Charges for services	\$ 126,217	\$ 184,449
Federal and state categorical grants	4,678,709	3,923,743
General revenues:		
Property taxes	8,087,852	8,092,482
Investment	25,260	8,456
State aid - unrestricted	2,976,732	3,113,820
Other	123,149	252,121
Total revenues	<u>16,017,919</u>	<u>15,575,071</u>
Expenses:		
Instruction	8,573,810	8,656,761
Support services	5,424,117	5,265,156
Community services	237,900	157,950
Food services	741,417	761,847
Interest on long-term debt	263,987	273,678
Unallocated depreciation	269,091	247,100
Total expenses	<u>15,510,322</u>	<u>15,362,492</u>
Change in net position	<u>\$ 507,597</u>	<u>\$ 212,579</u>

District Governmental Activities

The District's financial condition has come about through a number of areas.

- Proposal A which established the student foundation grant concept, and has increased that amount from \$5,024 per student in 1995 to \$7,126 per student in 2015.
- The District continues to work earnestly toward aligning expenditures with declining revenue each year. The District looks to manage staffing levels in accordance with student count, and seeks to save money in non-instructional areas whenever possible.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

For the District as a whole its *combined* fund balance, is \$4,247,808 compared to \$3,905,672 in 2014. The total fund balance increased by \$342,136 for the year primarily due to increase in the QZAB debt service fund and other non-major governmental funds of \$285,728.

General Fund and Budget Highlights

During the 2015-14 fiscal year the original district budget was amended three times to reflect changes which affected the District. The final budget was amended to show a current year balance of \$3,074,790 while the actual fund balance for the year was \$3,183,397. The better-than-anticipated final result was due largely to budgeted funds going unspent at the building and departmental levels.

The District has adopted a minimum fund balance for the general fund of 12 percent of total expenditures. The 12 percent minimum level of fund balance will allow the District to operate without the need for cash flow borrowing, and will also allow the District to absorb possible cuts to funding from the State of Michigan without adversely affecting programs.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The District's capital assets are as follows:

Table A-5 Houghton Lake Community Schools' Capital Assets				
	2015			2014
	Cost	Accumulated depreciation	Net book value	Net book value
Construction in progress	\$ 45,000	\$ -	\$ 45,000	\$ -
Buildings and improvements	16,353,517	10,014,341	6,339,176	6,703,250
Machinery and equipment	2,006,730	877,334	1,129,396	1,200,812
Transportation equipment	1,481,804	955,032	526,772	482,773
Total	<u>\$ 19,887,051</u>	<u>\$ 11,846,707</u>	<u>\$ 8,040,344</u>	<u>\$ 8,386,835</u>

The original cost of land is not determinable and is recorded at zero.

LONG-TERM DEBT

At year end the District had \$7,147,163 long-term debt outstanding as shown in Table A-6. More detailed information is available in Note 5 to the financial statements.

Table A-6 Houghton Lake Community Schools Outstanding Long-Term Debt		
	2015	2014
QZAB bonds	\$ 1,000,000	\$ 1,000,000
2008 General Obligation Bonds	5,705,152	6,022,856
Compensated absences and terminated benefits	442,011	488,966
	<u>\$ 7,147,163</u>	<u>\$ 7,511,822</u>

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The State of Michigan per pupil foundation allowance was increased during the 2014-2015 fiscal year to raise the minimum from \$7,026 to \$7,391. This equates to approximately 6 percent increase to general fund revenues from state sources however, there were categoricals that have been merged with the foundation allowance.
- The District's financial results for the 2014-2015 year were highly dependent upon federal funding, which was a one-time revenue used basically for wages and benefits for instructional staff.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Business Office, Houghton Lake Community Schools, 6001 W. Houghton Lake Drive; Houghton Lake, MI 48629.

BASIC FINANCIAL STATEMENTS

**HOUGHTON LAKE COMMUNITY SCHOOLS
STATEMENT OF NET POSITION
JUNE 30, 2015**

	<u>Governmental activities</u>
ASSETS:	
Cash and cash equivalents	\$ 1,657,603
Investments	2,127,827
Receivables:	
Accounts receivable	3,302
Intergovernmental	1,290,535
Inventories	161,557
Prepays	92,871
Investments - restricted debt service set-aside	629,288
Capital assets, net of accumulated depreciation	<u>8,040,344</u>
TOTAL ASSETS	<u>14,003,327</u>
DEFERRED OUTFLOWS OF RESOURCES:	
Related to pensions	<u>2,078,014</u>
LIABILITIES:	
Accounts payable	394,034
Accrued salaries and related items	1,144,381
Accrued interest	40,800
Unearned revenue	50,571
Intergovernmental payable	123,863
Due to fiduciary funds	2,326
Noncurrent liabilities:	
Due within one year	400,000
Due in more than one year	6,747,163
Net pension liability	<u>17,832,362</u>
TOTAL LIABILITIES	<u>26,735,500</u>
DEFERRED INFLOWS OF RESOURCES:	
Related to pensions	<u>1,971,375</u>
NET POSITION:	
Net investment in capital assets	1,335,192
Restricted for debt service	687,402
Restricted for food service	257,888
Unrestricted	<u>(14,906,016)</u>
TOTAL NET POSITION	<u><u>\$ (12,625,534)</u></u>

**HOUGHTON LAKE COMMUNITY SCHOOLS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2015**

<u>Functions/programs</u>	<u>Expenses</u>	<u>Program revenues</u>		<u>Governmental activities</u>
		<u>Charges for</u>	<u>Operating</u>	<u>Net (expense)</u>
		<u>services</u>	<u>grants</u>	<u>revenue and</u>
				<u>changes in</u>
				<u>net position</u>
Governmental activities:				
Instruction	\$ 8,573,810	\$ -	\$ 3,026,076	\$ (5,547,734)
Support services	5,424,117	38,784	756,519	(4,628,814)
Community services	237,900	-	132,811	(105,089)
Food services	741,417	87,433	763,303	109,319
Interest on long-term debt	263,987	-	-	(263,987)
Unallocated depreciation	269,091	-	-	(269,091)
		<u> </u>	<u> </u>	<u> </u>
Total governmental activities	<u>\$ 15,510,322</u>	<u>\$ 126,217</u>	<u>\$ 4,678,709</u>	<u>(10,705,396)</u>
General revenues:				
Property taxes, levied for general purposes				7,419,989
Property taxes, levied for debt service				667,863
Investment earnings				25,260
State sources				2,976,732
Intermediate sources				31,788
Other				91,361
				<u> </u>
Total general revenues				<u>11,212,993</u>
CHANGE IN NET POSITION				507,597
NET POSITION, beginning of year, as restated				<u>(13,133,131)</u>
NET POSITION, end of year				<u>\$ (12,625,534)</u>

**HOUGHTON LAKE COMMUNITY SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2015**

	<u>General Fund</u>	<u>QZAB Debt Service Fund</u>	<u>Total nonmajor funds</u>	<u>Total governmental funds</u>
ASSETS				
ASSETS:				
Cash and cash equivalents	\$ 1,313,256	\$ -	\$ 344,347	\$ 1,657,603
Investments	2,127,827	-	-	2,127,827
Receivables:				
Accounts receivable	3,302	-	-	3,302
Intergovernmental receivables	1,273,163	-	17,372	1,290,535
Due from other funds	4,917	-	-	4,917
Inventories	155,236	-	6,321	161,557
Prepays	20,871	-	72,000	92,871
Investments - restricted for debt service set-aside	-	629,288	-	629,288
TOTAL ASSETS	<u>\$ 4,898,572</u>	<u>\$ 629,288</u>	<u>\$ 440,040</u>	<u>\$ 5,967,900</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ 394,034	\$ -	\$ -	\$ 394,034
Accrued salaries and related items	1,144,381	-	-	1,144,381
Intergovernmental payables	123,863	-	-	123,863
Due to other funds	-	-	4,917	4,917
Accounts payable fiduciary funds	2,326	-	-	2,326
Unearned revenue	50,571	-	-	50,571
TOTAL LIABILITIES	<u>1,715,175</u>	<u>-</u>	<u>4,917</u>	<u>1,720,092</u>
FUND BALANCES:				
Nonspendable:				
Inventories	155,236	-	6,321	161,557
Prepays	20,871	-	72,000	92,871

See notes to financial statements.

	<u>General Fund</u>	<u>QZAB Debt Service Fund</u>	<u>Total nonmajor funds</u>	<u>Total governmental funds</u>
FUND BALANCES (Concluded):				
Restricted for:				
Debt service	\$ -	\$ 629,288	\$ 98,914	\$ 728,202
Food service	-	-	257,888	257,888
Assigned:				
Subsequent years expenditures	43,601	-	-	43,601
Severance pay	442,011	-	-	442,011
Unassigned reported in:				
General fund	<u>2,521,678</u>	<u>-</u>	<u>-</u>	<u>2,521,678</u>
TOTAL FUND BALANCES	<u>3,183,397</u>	<u>629,288</u>	<u>435,123</u>	<u>4,247,808</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 4,898,572</u>	<u>\$ 629,288</u>	<u>\$ 440,040</u>	<u>\$ 5,967,900</u>
Total governmental fund balances				\$ 4,247,808
Amounts reported for governmental activities in the statement of net position are different because:				
Deferred outflows of resources - related to pensions			\$ 2,078,014	
Deferred inflows of resources - related to pensions			<u>(1,971,375)</u>	
				106,639
Capital assets used in governmental activities are not financial resources and are not reported in the funds:				
The cost of the capital assets is			\$ 19,887,051	
Accumulated depreciation is			<u>(11,846,707)</u>	
				8,040,344
Long-term liabilities are not due and payable in the current period and are not reported in the funds:				
Accrued compensated absences and severance benefits				(442,011)
Bonds payable and unamortized premium				(6,705,152)
Accrued interest is not included as a liability in governmental funds, it is recorded when paid				(40,800)
Net pension liability				<u>(17,832,362)</u>
Net position of governmental activities				<u>\$ (12,625,534)</u>

See notes to financial statements.

HOUGHTON LAKE COMMUNITY SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2015

	<u>General Fund</u>	<u>QZAB Debt Service Fund</u>	<u>Total nonmajor funds</u>	<u>Total governmental funds</u>
REVENUES:				
Local sources:				
Property taxes	\$ 7,419,989	\$ -	\$ 667,863	\$ 8,087,852
Investment earnings	1,388	23,872	-	25,260
Food sales	-	-	87,433	87,433
Other	256,776	-	-	256,776
Total local sources	<u>7,678,153</u>	<u>23,872</u>	<u>755,296</u>	<u>8,457,321</u>
State sources	5,236,494	-	31,730	5,268,224
Federal sources	1,527,110	-	733,476	2,260,586
Incoming transfers and other	31,788	-	-	31,788
Total revenues	<u>14,473,545</u>	<u>23,872</u>	<u>1,520,502</u>	<u>16,017,919</u>
EXPENDITURES:				
Current:				
Instruction	8,357,480	-	-	8,357,480
Supporting services	5,757,073	-	-	5,757,073
Food service activities	-	-	741,417	741,417
Community service activities	237,900	-	-	237,900
Capital outlay	-	-	860	860

See notes to financial statements.

	<u>General Fund</u>	<u>QZAB Debt Service Fund</u>	<u>Total nonmajor funds</u>	<u>Total governmental funds</u>
EXPENDITURES (Concluded):				
Debt service:				
Principal repayment	\$ -	\$ -	\$ 315,000	\$ 315,000
Interest	-	10,000	256,053	266,053
Total expenditures	<u>14,352,453</u>	<u>10,000</u>	<u>1,313,330</u>	<u>15,675,783</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>121,092</u>	<u>13,872</u>	<u>207,172</u>	<u>342,136</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	-	64,684	-	64,684
Transfers out	<u>(64,684)</u>	<u> </u>	<u>-</u>	<u>(64,684)</u>
Total other financing sources (uses)	<u>(64,684)</u>	<u>64,684</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	56,408	78,556	207,172	342,136
FUND BALANCES:				
Beginning of year	<u>3,126,989</u>	<u>550,732</u>	<u>227,951</u>	<u>3,905,672</u>
End of year	<u>\$ 3,183,397</u>	<u>\$ 629,288</u>	<u>\$ 435,123</u>	<u>\$ 4,247,808</u>

See notes to financial statements.

**HOUGHTON LAKE COMMUNITY SCHOOLS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2015**

Net change in fund balances total governmental funds \$ 342,136

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

Governmental funds report capital outlays as expenditures. In the statement of activities these costs are allocated over their estimated useful lives as depreciation.

Depreciation expense	(629,680)
Capital outlay	283,189

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

Accrued interest payable, beginning of the year	42,637
Accrued interest payable, end of the year	(40,800)

The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The effect of these differences is the treatment of long-term debt and related items and are as follows:

Payments on debt	315,000
Amortization of bond premium	2,704

Compensated absences are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds:

Accrued compensated absences and severance benefits, beginning of the year	488,966
Accrued compensated absences and severance benefits, end of the year	(442,011)

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

Pension related items	145,456
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Change in net position of governmental activities \$ 507,597

**HOUGHTON LAKE COMMUNITY SCHOOLS
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2015**

	<u>Agency fund</u>
ASSETS:	
Cash	\$ 214,147
Receivable from general fund of the district	<u>2,326</u>
TOTAL ASSETS	<u><u>\$ 216,473</u></u>
LIABILITIES:	
Due to student and other groups	<u><u>\$ 216,473</u></u>

**HOUGHTON LAKE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. All fiduciary activities are reported only in the fund financial statements. *Governmental activities* normally are supported by taxes and intergovernmental revenues.

B. Reporting Entity

The Houghton Lake Community Schools (the “District”) is governed by the Houghton Lake Community Schools Board of Education (the “Board”), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District’s reporting entity does not contain any component units as defined in Governmental Accounting Standards Board (GASB) Statements.

C. Basis of Presentation - Government-wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from the governmental funds. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

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

D. Basis of Presentation - Fund Financial Statements

The fund financial statements provide information about the District’s funds, including its fiduciary funds. Separate statements for each fund category - governmental and fiduciary - are presented. The emphasis of fund financial statements is on major governmental funds. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

**HOUGHTON LAKE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Presentation - Fund Financial Statements (Concluded)

The District reports the following major governmental funds:

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

The QZAB *debt service fund* accounts for the resources accumulated and payments for principal and interest on the QZAB bond obligation debt.

Other Non-major Funds

The *special revenue fund* accounts for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its food service in the special revenue fund.

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

Fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

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

During the course of operations the District has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

**HOUGHTON LAKE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Measurement Focus and Basis of Accounting (Continued)

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

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

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

Property taxes, state and federal aid, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end).

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

**HOUGHTON LAKE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Measurement Focus and Basis of Accounting (Concluded)

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

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received and accrued, which are not expended by the close of the fiscal year are recorded as unearned revenue.

All other revenue items are generally considered to be measurable and available only when cash is received by the District.

F. Budgetary Information

Budgetary basis of accounting:

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund and special revenue fund. Other funds do not have appropriated budgets.

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances.

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

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.

**HOUGHTON LAKE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Budgetary Information (Concluded)

3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the general fund are noted in the required supplementary information section.
4. Transfers may be made for budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. The budget was amended during the year with supplemental appropriations, the last one approved prior to year-end June 30, 2015. The District does not consider these amendments to be significant.

G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. Cash and cash equivalents

The District's cash and cash equivalents are considered to be demand deposits and certificate of deposit.

2. Investments

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

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

**HOUGHTON LAKE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Continued)

3. Inventories and prepaid items

Inventories are valued at cost using the first-in/first-out (FIFO) method and consist of expendable supplies. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

4. Capital assets

Capital assets, which include property, plant, equipment, and transportation vehicles, are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Group purchases are evaluated on a case by case basis. Donated capital assets are recorded at their estimated fair value at the date of donation.

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

Land is not depreciated. The other property, plant, and equipment of the District are depreciated using the straight line method over the following estimated useful lives:

Buildings and improvements	50
Machinery and equipment	5 - 15
Transportation equipment	8
Site improvements	20

5. Defined benefit plan

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

**HOUGHTON LAKE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Continued)

6. Deferred outflows/inflows of resources

Deferred outflows

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District only has one item that qualifies for reporting in this category. It is pension related items reported in the government-wide statement of net position. A deferred outflow is recognized for pension related items. The amounts are expensed in the plan years in which they apply.

Deferred inflows

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has one item that qualifies for reporting in this category. It is the future resources yet to be recognized in relation to the pension actuarial calculation. These future resources arise from differences in the estimates used by the actuary to calculate the pension liability and the actual results. The amounts are amortized over a period determined by the actuary. Deferred outflows are recognized for pension related items. These amounts are expensed in the plan years in which they apply.

7. Net position flow assumption

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

**HOUGHTON LAKE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Continued)

8. Fund balance flow assumptions

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

9. Fund balance policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The District itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision-making authority. The board of education is the highest level of decision-making authority for the District that can, by adoption of a board action prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the board action remains in place until a similar action is taken (the adoption of another board action) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. The board of education has by resolution authorized the superintendent and finance director to assign fund balance. The board of education may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

**HOUGHTON LAKE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Concluded)

In the general fund, the District strives to maintain an unassigned fund balance to be used for unanticipated emergencies of approximately 12% of the actual GAAP basis expenditures and other financing uses.

H. Revenues and Expenditures/Expenses

1. Program revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, unrestricted state aid, interest, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. Property taxes

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

For the year ended June 30, 2015, the District levied the following amounts per \$1,000 of assessed valuation:

Fund	Mills
General Fund:	
Non-Principal Residence Exemption (PRE)	18.000
Commercial Personal Property	6.000
Debt Service Fund:	
PRE, Non-PRE, Commercial Personal Property	0.930

**HOUGHTON LAKE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

H. Revenues and Expenditures/Expenses (Concluded)

3. Compensated absences

The District's policy permits employees to accumulate earned but unused vacation and sick leave benefits, which are eligible for payment upon separation from service. The liability for such leave is reported as incurred in the government-wide financial statements. A liability for those amounts is recorded in the governmental funds only if the liability has matured as a result of employee resignations or retirements. The liability for compensated absences includes salary and related benefits, where applicable.

4. Long-term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method which approximates the effective interest method over the term of the related debt. Bond issuance costs are reported as expenditures in the year in which they are incurred.

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

NOTE 2 - DEPOSITS AND INVESTMENTS - CREDIT RISK

As of June 30, 2015, the District had the following investments.

<u>Investment type</u>	<u>Fair value</u>	<u>Weighted average maturity (years)</u>	<u>Standard & Poor's rating</u>	<u>%</u>
U.S. Government securities	\$ 629,288	0.4671	AA+	22.82%
MILAF External Investment pool - MIMAX	<u>2,127,827</u>	0.0027	AAAm	<u>77.18%</u>
Total fair value	<u>\$ 2,757,115</u>			<u>100.00%</u>
Portfolio weighted average maturity		<u>0.1087</u>		

1 day maturity equals 0.0027, one year equals 1.00

**HOUGHTON LAKE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - DEPOSITS AND INVESTMENTS - CREDIT RISK (Concluded)

The District voluntarily invests certain excess funds in external pooled investment funds which included money market funds. One of the pooled investment funds utilized by the District is the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external pooled investment fund of “qualified” investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports as of June 30, 2015, the fair value of the District’s investments is the same as the value of the pool shares.

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

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

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

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. As of June 30, 2015, \$1,812,536 of the District’s bank balance of \$2,062,536 was exposed to custodial credit risk because it was uninsured and uncollateralized. The carrying amount is \$1,871,750. The fiduciary fund balances are included in the above balances

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

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

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

**HOUGHTON LAKE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - DEPOSITS AND INVESTMENTS - CREDIT RISK (Concluded)

At June 30, 2015, the carrying amounts are as follows:

Deposits - including fiduciary funds of \$214,147	\$ 1,871,750
Investments	<u>2,757,115</u>
	<u><u>\$ 4,628,865</u></u>

The above amounts are reported in the financial statements as follows:

Cash - agency fund	\$ 214,147
Government wide:	
Cash and cash equivalents	1,657,603
Investments	2,127,827
Investments - restricted debt service set-aside	<u>629,288</u>
	<u><u>\$ 4,628,865</u></u>

NOTE 3 - INTERGOVERNMENTAL RECEIVABLES

Intergovernmental receivables at June 30, 2015 consist of the following:

Intergovernmental units:	
State aid	\$ 878,093
Federal revenue	280,392
Other	<u>132,050</u>
	<u><u>\$ 1,290,535</u></u>

**HOUGHTON LAKE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 4 - CAPITAL ASSETS

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

	Balance July 1, 2014	Additions	Reclassifications /deletions	Balance June 30, 2015
Governmental activities:				
Capital assets, not being depreciated:				
Construction in progress	\$ -	\$ 45,000	\$ -	\$ 45,000
Capital assets, being depreciated				
Site improvements	1,820,410	54,042	-	1,874,452
Buildings and improvements	14,479,065	-	-	14,479,065
Machinery and equipment	1,956,783	49,947	-	2,006,730
Transportation equipment	1,525,707	134,200	178,103	1,481,804
Total capital assets, being depreciated	19,781,965	238,189	178,103	19,842,051
Accumulated depreciation:				
Site improvements	449,155	84,672	-	533,827
Buildings and additions	9,147,070	333,444	-	9,480,514
Machinery and equipment	755,971	121,363	-	877,334
Transportation equipment	1,042,934	90,201	178,103	955,032
Total accumulated depreciation	11,395,130	629,680	178,103	11,846,707
Net capital assets being depreciated	8,386,835	(391,491)	-	7,995,344
Net governmental capital assets	\$ 8,386,835	\$ (346,491)	\$ -	\$ 8,040,344

Depreciation for the fiscal year ended June 30, 2015 amounted to \$629,680. The District allocated depreciation expense to the various activities as follows:

Instruction	\$ 343,972
Support services	16,617
Unallocated	269,091
	<u>\$ 629,680</u>

Depreciation of capital assets that serve multiple functions is recorded as unallocated. Original cost of land is not determinable and is recorded at zero.

**HOUGHTON LAKE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 - LONG-TERM DEBT

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

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

	QZAB bonds	General obligation bonds	Sub-total bonds and notes	Compensated absences	Severance benefits	Total
Balance, July 1, 2014	\$ 1,000,000	\$ 6,022,856	\$ 7,022,856	\$ 405,166	\$ 83,800	\$ 7,511,822
Deletions	-	317,704	317,704	30,752	16,203	364,659
Balance, June 30, 2015	1,000,000	5,705,152	6,705,152	374,414	67,597	7,147,163
Due within one year	-	335,000	335,000	58,000	7,000	400,000
Due in more than one year	<u>\$ 1,000,000</u>	<u>\$ 5,370,152</u>	<u>\$ 6,370,152</u>	<u>\$ 316,414</u>	<u>\$ 60,597</u>	<u>\$ 6,747,163</u>

Long-term obligation debt at June 30, 2015 is comprised of the following:

2005 School Building Bond is due in one installment on June 21, 2021. The bond was issued under the Qualified Zone Academy Bond (QZAB) program. Interest is reduced to 1.00% through a tax credit. A set-aside amount of \$64,684 is required each year. Interest of 2.75% will be earned on the set-aside account.	\$ 1,000,000
2008 general obligation bonds due in annual installments of \$335,000 to \$540,000 through May 1, 2028 with interest from 3.50% to 5.00%.	5,670,000
Plus: premium on bonds	<u>35,152</u>
Total bonded debt	6,705,152
Obligation under contract from compensated absences	374,414
Obligation under contract from severance benefits	<u>67,597</u>
Total long-term debt	<u>\$ 7,147,163</u>

Interest expense (all funds) for the year ended June 30, 2015 was approximately \$266,000.

**HOUGHTON LAKE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 - LONG-TERM DEBT (Concluded)

The annual requirements to amortize long-term debt outstanding as of June 30, 2015, including interest of \$2,172,530 are as follows:

Year ending June 30,	Principal	Interest	Total
2016	\$ 335,000	\$ 265,824	\$ 600,824
2017	345,000	254,798	599,798
2018	365,000	243,074	608,074
2019	385,000	225,824	610,824
2020	400,000	197,574	597,574
2021 - 2025	3,265,000	750,496	4,015,496
2026 - 2029	1,575,000	234,940	1,809,940
Total	6,670,000	2,172,530	8,842,530
Premium on bonds	35,152	-	35,152
Accumulated compensated absences	374,414	-	374,414
Accumulated severance benefits	67,597	-	67,597
	<u>\$ 7,147,163</u>	<u>\$ 2,172,530</u>	<u>\$ 9,319,693</u>

NOTE 6 - INTERFUND RECEIVABLES AND PAYABLES

Interfund payable and receivable balances at June 30, 2015 are as follows:

Receivable fund	Payable fund
General fund <u>\$ 4,917</u>	Food service fund <u>\$ 4,917</u>

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

**HOUGHTON LAKE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - DEFINED BENEFIT PLAN AND POST RETIREMENT 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>.

Benefits Provided

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

Pension Reform 2010

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

Pension Reform 2012

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

**HOUGHTON LAKE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

Regular Retirement (no reduction factor for age)

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

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

Pension Plus

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

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

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

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

Option 4 - None (Member will receive benefit through a Defined Contribution plan).

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

Member Contributions

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

**HOUGHTON LAKE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

Employer Contributions

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 District's pension contributions for the year ended June 30, 2015 were equal to the required contribution total. Pension contributions were approximately \$2,242,521, with \$2,122,841 specifically for the Defined Benefit Plan. These amounts include Section 147 contributions also.

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

Pension Liabilities

At June 30, 2015, the District reported a liability of \$17,832,362 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2013 and rolled-forward using generally accepted actuarial procedures. The District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2014, the District's proportion was .08096 percent.

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

For the year ended June 30, 2015, the District recognized pension expense of \$1,346,000. At June 30, 2015, the Reporting Unit reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred outflows of resources	Deferred inflows of resources
Changes in proportion and differences between employer contributions and proportionate share of contributions	\$ 75	\$ -
Changes of assumptions	657,976	-
Net difference between projected and actual plan investment earnings	-	(1,971,375)
Reporting Unit's contributions subsequent to the measurement date	1,419,963	-
	\$ 2,078,014	\$ (1,971,375)

**HOUGHTON LAKE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

\$1,419,963, reported as deferred outflows of resources related to pensions resulting from District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

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

Year ended June 30,	Amount
2016	\$ (319,672)
2017	(319,672)
2018	(319,672)
2019	(354,308)

Actuarial Assumptions

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

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

Inflation - 2.5%

Mortality assumptions - The healthy life post-retirement mortality table used in this valuation of the System was the RP-2000 Male and Female Combined Healthy Mortality Table, adjusted for mortality improvements to 2020 using projection scale AA. The final rates used include no margin for future mortality improvement. This assumption is used to measure the probabilities of each benefit payment being made after retirement.

Experience study - The annual actuarial valuation report of the System used for these statements is dated September 30, 2014. An assumption experience study is performed every five years. The actuarial assumptions used in the September 30, 2014 valuation were based on the results of an actuarial experience study for the period October 1, 2008 to September 30, 2013. As a result of this actuarial experience study, the actuarial assumptions were adjusted to more closely reflect actual experience.

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

**HOUGHTON LAKE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

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

<u>Investment category</u>	<u>Target allocation</u>	<u>Long-term expected real rate of return*</u>
Domestic Equity Pools	28.00%	4.80%
Alternate Investment Pools	18.00%	8.50%
International Equity	16.00%	6.10%
Fixed Income Pools	10.50%	1.50%
Real Estate and Infrastructure Pools	10.00%	5.30%
Absolute Return Pools	15.50%	6.30%
Short Term Investment Pools	2.00%	(0.2)%
	<u>100.00%</u>	

* Long term rate of return does not include 2.50% inflation.

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

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

The following presents the Reporting Unit's proportionate share of the net pension liability calculated using the discount rate of 8.0 percent, as well as what the Reporting Unit's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7.0 percent) or 1 percentage point higher (9.0 percent) than the current rate:

	<u>1% Lower (7.0%)</u>	<u>Discount Rate (8.0%)</u>	<u>1% Higher (9.0%)</u>
Reporting unit's proportionate share of the net pension liability	<u>\$ 23,510,416</u>	<u>\$ 17,832,362</u>	<u>\$ 13,048,517</u>

**HOUGHTON LAKE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued Michigan Public School Employees Retirement System 2014 Comprehensive Annual Financial Report, available here: <http://michigan.gov/orsschools/0,1607,7-206-36585---,00.html>.

Benefit Provisions - Other Postemployment

Introduction

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

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

Retiree Healthcare Reform of 2012

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

**HOUGHTON LAKE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Concluded)

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

Employer Contributions

The District postemployment healthcare contributions to MPSERS for the year ended June 30, 2015 were approximately \$181,000.

NOTE 8 - RISK MANAGEMENT

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The District participates in a distinct pool of educational institutions within the State of Michigan for self-insuring workers' disability compensation. The pool is considered a public entity risk pool. The District pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total 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 pool maintains reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The District has not been informed of any special assessments being required.

The District continues to carry commercial insurance for other risks of loss, including property and casualty errors and omissions, fleet and employee health and accident insurance.

NOTE 9 - TRANSFERS

The general fund transferred \$64,684 to the QZAB debt service fund to fund the required set aside funding requirement.

**HOUGHTON LAKE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 10 - NEW ACCOUNTING STANDARDS

For the year ended June 30, 2015 the District implemented the following new pronouncements: GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

Summary:

GASB Statement No. 68 requires governments that participate in defined benefit pension plans to report in their statement of net position an actuarial calculation. The net pension liability is the difference between the total pension liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries. The statement requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the cost-sharing plan. The Statement also will improve the comparability and consistency of how governments calculate the pension liabilities and expense.

GASB Statement No. 71 addressed the issue of contributions made to the defined benefit pension plans after the measurement date for the year in which GASB Statement No. 68 is implemented. The effect is to eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement 68 in the accrual basis financial statements.

The restatement of the beginning of the year net position is as follows:

	Governmental Activities
Net position as previously stated July 1, 2014	\$ 4,738,048
Adoption of GASB Statements 68 and 71	
Net pension liability	(18,970,397)
Deferred outflows	1,099,218
Net position as restated July 1, 2014	\$ (13,133,131)

**HOUGHTON LAKE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 11 - UPCOMING ACCOUNTING PRONOUNCEMENT

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

REQUIRED SUPPLEMENTARY INFORMATION

**HOUGHTON LAKE COMMUNITY SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2015**

	Original budget	Final budget	Actual	Variance with final budget
REVENUES:				
Local sources	\$ 7,728,710	\$ 7,641,110	\$ 7,678,153	\$ 37,043
State sources	4,765,588	5,187,361	5,236,494	49,133
Federal sources	1,353,576	1,698,275	1,527,110	(171,165)
Incoming transfers and other	31,000	31,421	31,788	367
Total revenues	<u>13,878,874</u>	<u>14,558,167</u>	<u>14,473,545</u>	<u>(84,622)</u>
EXPENDITURES:				
Current:				
Instruction:				
Basic programs	6,016,931	6,116,776	6,103,046	13,730
Added needs	2,026,016	2,264,346	2,197,158	67,188
Adult education	76,451	67,458	57,276	10,182
Total instruction	<u>8,119,398</u>	<u>8,448,580</u>	<u>8,357,480</u>	<u>91,100</u>
Supporting services:				
Pupil	800,510	700,935	669,173	31,762
Instructional staff	305,972	522,846	487,727	35,119
General administration	334,553	321,873	299,284	22,589
School administration	1,036,465	1,050,142	1,040,250	9,892
Business	396,731	417,372	410,138	7,234
Operation/maintenance	1,225,371	1,215,367	1,269,367	(54,000)
Pupil transportation	927,440	984,883	970,669	14,214
Central	560,576	777,433	610,465	166,968
Total supporting services	<u>5,587,618</u>	<u>5,990,851</u>	<u>5,757,073</u>	<u>233,778</u>
Community services	<u>101,740</u>	<u>112,251</u>	<u>237,900</u>	<u>(125,649)</u>
Total expenditures	<u>13,808,756</u>	<u>14,551,682</u>	<u>14,352,453</u>	<u>199,229</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES				
	<u>70,118</u>	<u>6,485</u>	<u>121,092</u>	<u>114,607</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	-	6,000	-	(6,000)
Transfers out	(64,684)	(64,684)	(64,684)	-
NET CHANGE IN FUND BALANCE				
	<u>\$ 5,434</u>	<u>\$ (52,199)</u>	<u>56,408</u>	<u>\$ 108,607</u>
FUND BALANCE:				
Beginning of year			<u>3,126,989</u>	
End of year			<u>\$ 3,183,397</u>	

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

	2014
Reporting unit's proportion of net pension liability (%)	0.08096%
Reporting unit's proportionate share of net pension liability	\$ 17,832,362
Reporting unit's covered-employee payroll	6,840,439
Reporting unit's proportionate share of net pension liability as a percentage of its covered-employee payroll	260.69%
Plan fiduciary net position as a percentage of total pension liability	66.20%

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

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

	2015
Statutorily required contributions	\$ 1,492,289
Contributions in relation to statutorily required contributions	1,492,289
Contribution deficiency (excess)	\$ -
Reporting unit's covered-employee payroll	\$ 6,688,782
Contributions as a percentage of covered-employee payroll	22.31%

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

**HOUGHTON LAKE COMMUNITY SCHOOLS
SCHEDULE OF NET PENSION LIABILITY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2015**

Changes of benefits terms: There were no changes of benefits terms.

Changes of assumptions: Assumptions changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation.

ADDITIONAL SUPPLEMENTARY INFORMATION

**HOUGHTON LAKE COMMUNITY SCHOOLS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND
JUNE 30, 2015**

	Special revenue	2008 Debt Service	Total nonmajor funds
	Food service	2008 Debt Service	Total nonmajor funds
ASSETS			
ASSETS:			
Cash and cash equivalents	\$ 245,433	\$ 98,914	\$ 344,347
Intergovernmental receivable	17,372	-	17,372
Inventories	6,321	-	6,321
Prepays	72,000	-	72,000
	\$ 341,126	\$ 98,914	\$ 440,040
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Due to other funds	\$ 4,917	\$ -	\$ 4,917
FUND BALANCES:			
Nonspendable:			
Inventories	6,321	-	6,321
Prepays	72,000	-	72,000
Restricted for:			
Debt service	-	98,914	98,914
Food service	257,888	-	257,888
	336,209	98,914	435,123
TOTAL FUND BALANCES	336,209	98,914	435,123
TOTAL LIABILITIES AND FUND BALANCES	\$ 341,126	\$ 98,914	\$ 440,040

**HOUGHTON LAKE COMMUNITY SCHOOLS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUND
YEAR ENDED JUNE 30, 2015**

	<u>Special revenue</u>		<u>Total nonmajor funds</u>
	<u>Food service</u>	<u>2008 Debt Service</u>	
REVENUES:			
Local sources:			
Property taxes	\$ -	\$ 667,863	\$ 667,863
Food sales	87,433	-	87,433
Total local sources	<u>87,433</u>	<u>667,863</u>	<u>755,296</u>
State sources	29,827	1,903	31,730
Federal sources	733,476	-	733,476
Total revenues	<u>850,736</u>	<u>669,766</u>	<u>1,520,502</u>
EXPENDITURES:			
Current:			
Food service activities	741,417	-	741,417
Capital outlay	860	-	860
Debt service:			
Principal repayment	-	315,000	315,000
Interest expense	-	256,053	256,053
Total expenditures	<u>742,277</u>	<u>571,053</u>	<u>1,313,330</u>
NET CHANGE IN FUND BALANCES	108,459	98,713	207,172
FUND BALANCES:			
Beginning of year	<u>227,750</u>	<u>201</u>	<u>227,951</u>
End of year	<u>\$ 336,209</u>	<u>\$ 98,914</u>	<u>\$ 435,123</u>

**HOUGHTON LAKE COMMUNITY SCHOOLS
 BONDED DEBT
 QUALIFIED ZONE ACADEMY BONDS (QZAB)
 JUNE 30, 2015**

Calendar Year	Interest rate	Principal due June 21
2021	1.00%	<u>\$ 1,000,000</u>

The above bonds dated June 21, 2005 were issued for the purpose of financing renovations and improvements to school properties. The amount of the original bond issue was \$1,000,000.

Bonds of this issue are not subject to redemption prior to maturity.

**HOUGHTON LAKE COMMUNITY SCHOOLS
BONDED DEBT
JUNE 30, 2015**

2008 General Obligation Bonds

Fiscal year year	Principal due May 1,	Interest due		Total due annually
		November 1	May 1	
2016	\$ 335,000	\$ 122,399	\$ 122,399	\$ 579,798
2017	345,000	116,537	116,537	578,074
2018	365,000	107,912	107,912	580,824
2019	385,000	98,787	98,787	582,574
2020	400,000	91,087	91,087	582,174
2021	415,000	83,087	83,087	581,174
2022	430,000	74,528	74,528	579,056
2023	450,000	65,498	65,498	580,996
2024	470,000	56,048	56,048	582,096
2025	500,000	46,060	46,060	592,120
2026	505,000	35,185	35,185	575,370
2027	530,000	24,075	24,075	578,150
2028	540,000	12,150	12,150	564,300
Total	<u>\$ 5,670,000</u>	<u>\$ 933,353</u>	<u>\$ 933,353</u>	<u>\$ 7,536,706</u>

The above bonds dated September 30, 2008 were issued for the purpose of building and site purposes. The amount of the original bond issue was \$7,150,000. The above bonds carry interest ranging from 3.50% to 5.00%.

**HOUGHTON LAKE COMMUNITY SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2015**

Federal grantor/pass-through grantor program title	Federal CFDA number	Pass-through grantor's number	Award amount	Accrued revenue 7/1/2014	Prior year expenditures (memorandum only)	Current year receipts (cash basis)	Current year expenditures	Accrued revenue 6/30/2015
U.S. Department of Agriculture:								
Passed through Michigan Department of Education:								
Child nutrition cluster:								
Non-cash assistance (donated food):								
National School Lunch Program - donated food	10.555		\$ 53,217	\$ -	\$ -	\$ 53,217	\$ 53,217	\$ -
Entitlement			172	-	-	172	172	-
Bonus								
Total non-cash assistance			53,389	-	-	53,389	53,389	-
Cash assistance:								
School Breakfast Program	10.553	141970	15,080	-	-	15,080	15,080	-
		151970	133,339	-	-	133,339	137,363	4,024
			148,419	-	-	148,419	152,443	4,024
National School Lunch Program - Section 11	10.555	141960	60,383	-	-	60,383	60,383	-
		151960	445,764	-	-	445,764	459,089	13,325
		141980	35	-	-	35	35	-
		151980	6,731	-	-	6,731	6,754	23
			512,913	-	-	512,913	526,261	13,348
National School Lunch Program - Summer Food Service	10.559	140900-0914	778	778	778	778	-	-
		140900-1114	1,254	-	-	1,254	1,254	-
		141900-0914	80	80	80	80	-	-
		141900-1114	129	-	-	129	129	-
			2,241	858	858	2,241	1,383	-
Total cash assistance			663,573	858	858	663,573	680,087	17,372
Total U.S. Department of Agriculture (Cluster total)			716,962	858	858	716,962	733,476	17,372

The accompanying notes are an integral part of this schedule.

**HOUGHTON LAKE COMMUNITY SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2015**

Federal grantor/pass-through grantor program title	Federal CFDA number	Pass-through grantor's number	Award amount	Accrued revenue 7/1/2014	Prior year expenditures (memorandum only)	Current year receipts (cash basis)	Current year expenditures	Accrued revenue 6/30/2015
U.S. Department of Education:								
Passed through C.O.O.R.I.S.D.:								
Special Education Cluster:								
Special Education Flow Through Grant	84.027	140450-1314 150450-1415	\$ 380,670 -	\$ 378,096 -	\$ 378,096 -	\$ 378,096 228,405	\$ - 366,788	\$ - 138,383
Total Special Education			380,670	378,096	378,096	606,501	366,788	138,383
Passed through Michigan Department of Education:								
Adult Basic Education								
	84.002	141130-141777 151130-151777 141190-141777 151190-151777	64,177 65,000 29,000 30,000	63,463 - 12,493 -	63,463 - 20,973 -	63,463 54,489 12,493 18,529	- 55,912 - 20,703	- 1,423 - 2,174
Total Adult Basic Education			188,177	75,956	84,436	148,974	76,615	3,597
Title I	84.010	141530-1314 151530-1415	705,737 777,757	93,820 -	599,452 -	93,820 647,880	- 716,098	- 68,218
Total Title I			1,483,494	93,820	599,452	741,700	716,098	68,218
Title II - Improving Teacher Quality	84.367	140520-1314 150520-1415	146,252 251,359	30,357 -	74,631 -	30,357 145,779	- 198,017	- 52,238
Total Title II - Improving Teacher Quality			397,611	30,357	74,631	176,136	198,017	52,238
Title VIB	84.358B	140660-1314 150660-1415	46,366 33,009	3,000 -	43,913 -	3,000 32,727	- 32,727	- -
Total Title VIB			79,375	3,000	43,913	35,727	32,727	-
Total passed through Michigan Department of Education			2,148,657	203,133	802,432	1,102,537	1,023,457	124,053
Total U.S. Department of Education			2,529,327	581,229	1,180,528	1,709,038	1,390,245	262,436
U.S Department of Health and Human Services:								
Passed through Michigan Department of Health and Human Services:								
Safe Schools and Healthy Students								
	93.243	132704-SSHS14 142704-SSHS2015	29,292 208,688	8,329 -	48,373 -	24,772 113,658	16,443 114,242	- 584
			237,980	8,329	48,373	138,430	130,685	584
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 3,484,269	\$ 590,416	\$ 1,229,759	\$ 2,564,430	\$ 2,254,406	\$ 280,392

The accompanying notes are an integral part of this schedule.

**HOUGHTON LAKE COMMUNITY SCHOOLS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015**

1. Basis of presentation - The accompanying schedule of expenditures of federal awards (the "Schedule") includes the grant activity of Houghton Lake Community Schools under programs of the federal government for the year ended June 30, 2015. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Houghton Lake Community Schools, it is not intended to and does not present the financial position or changes in net position of Houghton Lake Community Schools.
2. Summary of Significant Accounting Policies - Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for States, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts (if any) shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.
3. Child Nutrition Cluster (10.553, 10.555, and 10.559) was audited as a major program, representing 33% of expenditures. The District qualifies for low risk auditee status.
4. The threshold for distinguishing Type A and Type B programs was \$300,000.
5. Management has utilized the Grant Section Auditors Report in preparing the Schedule of Expenditures of Federal Awards.
6. Federal expenditures are reported as revenue in the following funds in the financial statements:

General fund revenue	\$ 1,527,110
Other non-major governmental funds revenue	<u>733,476</u>
	2,260,586
Less federal forest payments not subject to OMB Circular A-133	<u>(6,180)</u>
Total federal expenditures	<u><u>\$ 2,254,406</u></u>

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

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Houghton Lake Community Schools

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Houghton Lake Community Schools as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Houghton Lake Community Schools' basic financial statements and have issued our report thereon dated October 26, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Houghton Lake Community Schools' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Houghton Lake Community Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of the Houghton Lake Community Schools' internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Houghton Lake Community Schools' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Maney Costeiran PC

October 26, 2015

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Houghton Lake Community Schools

Report on Compliance for Each Major Federal Program

We have audited Houghton Lake Community Schools' compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Houghton Lake Community Schools' major federal programs for the year ended June 30, 2015. Houghton Lake Community Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Houghton Lake Community Schools' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Houghton Lake Community Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Houghton Lake Community Schools' compliance.

Opinion on Each Major Federal Program

In our opinion, Houghton Lake Community Schools complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of Houghton Lake Community Schools is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Houghton Lake Community Schools' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Houghton Lake Community Schools' internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Manes Costeiran PC

October 26, 2015

**HOUGHTON LAKE COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: *Unmodified*

Internal control over financial reporting:

➤ Material weakness(es) identified? _____ Yes X No

➤ Significant deficiency(ies) identified? _____ Yes X None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

➤ Material weakness(es) identified? _____ Yes X No

➤ Significant deficiency(ies) identified? _____ Yes X None reported

Type of auditor's report issued on compliance for major programs: *Unmodified*

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? _____ Yes X No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.553, 10.555, 10.559	Child Nutrition Cluster

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? X Yes _____ No

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

**HOUGHTON LAKE COMMUNITY SCHOOLS
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015**

There were no audit findings in either of the prior two years.

October 26, 2015

To the Board of Education
Houghton Lake Community Schools

We have audited the financial statements of Houghton Lake Community Schools for the year ended June 30, 2015, and have issued our report thereon dated October 26, 2015. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered Houghton Lake Community Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirement that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Houghton Lake Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Houghton Lake Community Schools' compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on Houghton Lake Community Schools' compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Houghton Lake Community Schools' compliance with those requirements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters.

Significant Audit Findings

1. Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Houghton Lake Community Schools are described in Note 1 to the financial statements. During 2015 the District implemented Governmental Accounting Standard No. 68, *Accounting and Financial Reporting for Pensions*, and Governmental Accounting Standards Board Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The application of existing policies was not changed during 2015. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Estimates have been used to calculate the net pension liability.

Management's estimate of the liability of the payout for the employee compensated absences upon their retirement based on expected payout. We evaluated the key factors and assumptions used to develop the balance of compensated absences to determine that it is reasonable in relation to the financial statements taken as a whole.

We also evaluated the key factors and assumptions management used to develop the estimated life span of the capital assets to determine that it is reasonable in relation to the financial statements taken as a whole. Certain amounts included in capital assets have been estimated based on an outside appraisal company.

Certain allocations on the statement of activities allocating revenue between instruction and support services have been used in preparing the statements.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. We did not identify any significant disclosures.

2. *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

3. *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We have determined these misstatements to be insignificant to the financial statements taken as a whole as of and for the year then ended June 30, 2015.

4. *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

5. *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated October 26, 2015.

6. *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

7. *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

At June 30, 2015, the Food Service Fund, fund balance exceeded MDE guidelines. We recommend the District communicate with the MDE regarding the District's plan to come into compliance.

8. *Other Matters*

We applied certain limited procedures to the required supplementary information (RSI) which are required and supplement the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the other supplementary information, which accompany the financial statements but are not RSI. With respect to this other supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the other supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

A separate management letter was not issued.

This information is intended solely for the use of the Board of Education, management and federal awarding agencies and pass-through entities of Houghton Lake Community Schools and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Maney Costeiran PC