

HOUGHTON LAKE COMMUNITY SCHOOLS

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

YEAR ENDED JUNE 30, 2014

CONTENTS

	<u>Page</u>
Independent auditor's report	4 - 6
Management's Discussion and Analysis	7 - 13
Basic financial statements	14
Government-wide financial statements	
Statement of net position.....	15
Statement of activities.....	16
Fund financial statements	
Balance sheet - governmental funds	17 - 18
Statement of revenues, expenditures and changes in fund balances - governmental funds.....	19 - 20
Reconciliation of the statement of revenues, expenditures and changes in fund balances of governmental funds to the statement of activities.....	21
Agency funds	
Statement of fiduciary assets and liabilities	22
Notes to financial statements.....	23 - 43
Required supplementary information	44
Budgetary comparison schedule - general fund	45

CONTENTS

	<u>Page</u>
Additional supplementary information	46
Nonmajor governmental fund types	
Combining balance sheet	47
Combining statement of revenues, expenditures, and changes in fund balances	48
Long-term debt	
Bonded debt - Qualified Zone Academy Bond	49
Bonded debt	50
Schedule of expenditures of federal awards	51 - 53
Notes to schedule of expenditures of federal awards	54
Report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i>	55 - 56
Report on compliance for each major federal program and on internal control over compliance required by OMB Circular A-133	57 - 58
Schedule of findings and questioned costs	59
Schedule of prior year audit findings	60

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, 2014, 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, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2014 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

September 9, 2014

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, 2014. Please read it in conjunction with the District’s financial statements, which immediately follow this section.

FINANCIAL OVERVIEW

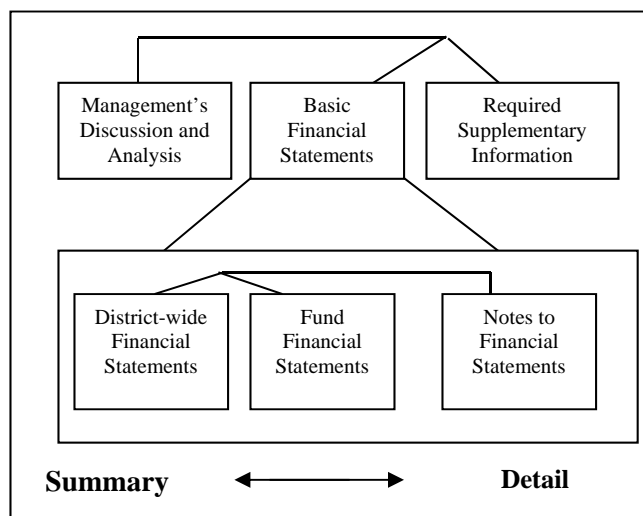
- The District’s general fund financial situation declined from the 2013 fiscal year to 2014.
- For the 2013-14 school year, general fund fund balance was decreased by \$13,935.
- During the 2013-14 school year compared to 2012-13, general fund revenues decreased by \$196,675 (1.36 percent), while expenditures decreased by \$202,293 (1.41 percent).
- Student enrollment decreased by 65 students to 1,531 in the 2013 - 2014 school year. This represents a decrease of approximately 4 percent from the 2013 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.

**Figure A-1
Organization of Houghton Lake
Community Schools’ Annual Financial**



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

	District-wide statements	Fund Financial Statements	
		Governmental Funds	Fiduciary Funds
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 and liabilities. 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 and liabilities - are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net position 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 was more on June 30, 2014 than the year before, increasing by \$212,579 to \$4,738,048.

Table A-3 Houghton Lake Community Schools Net Position		
	2014	2013
Current and other assets	\$ 5,060,505	\$ 4,996,242
Capital assets and other	8,386,835	8,606,881
Total assets	13,447,340	13,603,123
Noncurrent liabilities	7,511,822	7,852,476
Other liabilities	1,197,470	1,225,178
Total liabilities	8,709,292	9,077,654
Net position:		
Net investment in capital assets	1,363,979	1,291,321
Restricted for debt service	508,296	472,365
Restricted for food service	149,429	74,279
Unrestricted	2,716,344	2,687,504
Total net position	\$ 4,738,048	\$ 4,525,469

Table A-4 Changes in Houghton Lake Community Schools' Net Position		
	2014	2013
Revenues:		
Program revenues:		
Charges for services	\$ 184,449	\$ 261,616
Federal and state categorical grants	3,923,743	4,074,291
General revenues:		
Property taxes	8,092,482	7,997,802
Investment	8,456	14,540
State aid - unrestricted	3,113,820	3,290,461
Other	252,121	158,591
Total revenues	15,575,071	15,797,301
Expenses:		
Instruction	8,656,761	9,156,234
Support services	5,265,156	5,493,527
Community services	157,950	91,671
Food services	761,847	639,657
Interest on long-term debt	273,678	282,425
Unallocated depreciation	247,100	244,970
Total expenses	15,362,492	15,908,484
Change in net position	\$ 212,579	\$ (111,183)

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 \$7,026 per student in 2014.
- 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 \$3,905,672 compared to \$3,815,272 in 2013. The total fund balance increased by \$90,400 for the year primarily due to increase in the QZAB debt service fund and other non-major governmental funds of \$104,335 offset by a decrease of \$13,935 in the general fund.

General Fund and Budget Highlights

During the 2013-14 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 \$3,051,618 while the actual fund balance for the year was \$3,126,989. 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				
	2014			2013
	Cost	Accumulated depreciation	Net book value	Net book value
Buildings and improvements	\$ 16,299,475	\$ 9,596,225	\$ 6,703,250	\$ 7,098,625
Machinery and equipment	1,956,783	755,971	1,200,812	1,155,653
Transportation equipment	1,525,707	1,042,934	482,773	352,603
Total	<u>\$ 19,781,965</u>	<u>\$ 11,395,130</u>	<u>\$ 8,386,835</u>	<u>\$ 8,606,881</u>

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

LONG-TERM DEBT

At year end the District had \$7,511,822 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		
	2014	2013
QZAB bonds	\$ 1,000,000	\$ 1,000,000
2008 General Obligation Bonds	6,022,856	6,315,560
Compensated absences and terminated benefits	488,966	536,916
	<u>\$ 7,511,822</u>	<u>\$ 7,852,476</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 2013-2014 fiscal year to raise the minimum from \$6,966 to \$7,026. This equates to approximately 2.0 percent increase to general fund revenues from state sources.
- The District's financial results for the 2013-14 year were dependent upon federal funding, which was a one-time revenue used basically for wages and benefits for instructional staff.
- For 2014 - 2015 future changes in pension contributions will continue to be major portion of general fund expenditures.

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, 2014

	Governmental activities
ASSETS:	
Cash and cash equivalents	\$ 781,962
Investments	1,761,071
Receivables:	
Accounts receivable	24,960
Due from fiduciary funds	6,230
Intergovernmental	1,574,941
Inventories	152,429
Prepays	208,180
Investments - restricted debt service set-aside	550,732
Capital assets, net of accumulated depreciation	8,386,835
TOTAL ASSETS	13,447,340
LIABILITIES:	
Accounts payable	185,499
Accrued salaries and related items	852,427
Accrued interest	42,637
Unearned revenue	95,430
Intergovernmental payable	21,477
Noncurrent liabilities:	
Due within one year	401,000
Due in more than one year	7,110,822
TOTAL LIABILITIES	8,709,292
NET POSITION:	
Net investment in capital assets	1,363,979
Restricted for debt service	508,296
Restricted for food service	149,429
Unrestricted	2,716,344
TOTAL NET POSITION	\$ 4,738,048

**HOUGHTON LAKE COMMUNITY SCHOOLS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014**

Functions/programs	Expenses	Program revenues		Governmental activities
		Charges for services	Operating grants	Net (expense) revenue and changes in net position
Governmental activities:				
Instruction	\$ 8,656,761	\$ -	\$ 2,121,331	\$ (6,535,430)
Support services	5,265,156	51,759	900,268	(4,313,129)
Community services	157,950	-	201,697	43,747
Food services	761,847	132,690	700,447	71,290
Interest on long-term debt	273,678	-	-	(273,678)
Unallocated depreciation	247,100	-	-	(247,100)
Total governmental activities	<u>\$ 15,362,492</u>	<u>\$ 184,449</u>	<u>\$ 3,923,743</u>	<u>(11,254,300)</u>
General revenues:				
Property taxes, levied for general purposes				7,603,772
Property taxes, levied for debt service				488,710
Investment earnings				8,456
State sources				3,113,820
Intermediate sources				176,761
Other				75,360
Total general revenues				<u>11,466,879</u>
CHANGE IN NET POSITION				212,579
NET POSITION, beginning of year				<u>4,525,469</u>
NET POSITION, end of year				<u>\$ 4,738,048</u>

**HOUGHTON LAKE COMMUNITY SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014**

	General Fund	QZAB Debt Service Fund	Total nonmajor funds	Total governmental funds
ASSETS				
ASSETS:				
Cash and cash equivalents	\$ 519,437	\$ -	\$ 262,525	\$ 781,962
Investments	1,761,071	-	-	1,761,071
Receivables:				
Accounts receivable	24,960	-	-	24,960
Intergovernmental receivables	1,574,083	-	858	1,574,941
Due from fiduciary funds	6,230	-	-	6,230
Due from other funds	88,505	-	4,524	93,029
Inventories	146,108	-	6,321	152,429
Prepays	136,180	-	72,000	208,180
Investments - restricted for debt service set-aside	-	550,732	-	550,732
TOTAL ASSETS	\$ 4,256,574	\$ 550,732	\$ 346,228	\$ 5,153,534
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ 155,727	\$ -	\$ 29,772	\$ 185,499
Accrued salaries and related items	852,427	-	-	852,427
Intergovernmental payables	21,477	-	-	21,477
Due to other funds	4,524	-	88,505	93,029
Unearned revenue	95,430	-	-	95,430
TOTAL LIABILITIES	1,129,585	-	118,277	1,247,862
FUND BALANCES:				
Nonspendable:				
Inventories	146,108	-	6,321	152,429
Prepays	136,180	-	72,000	208,180

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	\$ -	\$ 550,732	\$ 201	\$ 550,933
Food service		-	149,429	149,429
Assigned:				
Severance pay	488,966	-	-	488,966
Unassigned reported in:				
General fund	2,355,735	-	-	2,355,735
TOTAL FUND BALANCES	<u>3,126,989</u>	<u>550,732</u>	<u>227,951</u>	<u>3,905,672</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 4,256,574</u>	<u>\$ 550,732</u>	<u>\$ 346,228</u>	<u>\$ 5,153,534</u>
Total governmental fund balances				\$ 3,905,672
Amounts reported for governmental activities in the statement of net position are different because:				
Capital assets used in governmental activities are not financial resources and are not reported in the funds				
The cost of the capital assets is			\$ 19,781,965	
Accumulated depreciation is			<u>(11,395,130)</u>	
				8,386,835
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				(488,966)
Bonds payable and unamortized premium				(7,022,856)
Accrued interest is not included as a liability in governmental funds, it is recorded when paid				<u>(42,637)</u>
Net position of governmental activities				<u>\$ 4,738,048</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, 2014

	<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	\$ 7,603,772	\$ -	\$ 488,710	\$ 8,092,482
Investment earnings	936	7,520	-	8,456
Food sales	-	-	132,690	132,690
Other	323,660	-	-	323,660
Total local sources	7,928,368	7,520	621,400	8,557,288
State sources	4,906,518	-	22,166	4,928,684
Federal sources	1,234,057	-	678,281	1,912,338
Incoming transfers and other	176,761	-	-	176,761
Total revenues	14,245,704	7,520	1,321,847	15,575,071
EXPENDITURES:				
Current:				
Instruction	8,330,818	-	-	8,330,818
Supporting services	5,668,187	-	-	5,668,187
Food service activities	-	-	761,847	761,847
Community service activities	157,950	-	-	157,950
Capital outlay	-	-	1,315	1,315

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	\$ -	\$ -	\$ 290,000	\$ 290,000
Interest	-	10,000	264,554	274,554
	<u>14,156,955</u>	<u>10,000</u>	<u>1,317,716</u>	<u>15,484,671</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>88,749</u>	<u>(2,480)</u>	<u>4,131</u>	<u>90,400</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	-	64,684	38,000	102,684
Transfers out	(102,684)	-	-	(102,684)
	<u>(102,684)</u>	<u>64,684</u>	<u>38,000</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>(13,935)</u>	<u>62,204</u>	<u>42,131</u>	<u>90,400</u>
FUND BALANCES:				
Beginning of year	<u>3,140,924</u>	<u>488,528</u>	<u>185,820</u>	<u>3,815,272</u>
End of year	<u>\$ 3,126,989</u>	<u>\$ 550,732</u>	<u>\$ 227,951</u>	<u>\$ 3,905,672</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, 2014**

Net change in fund balances total governmental funds	\$ 90,400
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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	(598,545)
Capital outlay	378,499

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	44,208
Accrued interest payable, end of the year	(42,637)

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	290,000
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	536,916
Accrued compensated absences and severance benefits, end of the year	(488,966)

Change in net position of governmental activities	<u>\$ 212,579</u>
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**HOUGHTON LAKE COMMUNITY SCHOOLS
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2014**

	<u>Agency fund</u>
ASSETS:	
Cash	<u><u>\$ 215,173</u></u>
LIABILITIES:	
Due to other funds	\$ 6,230
Due to student and other groups	<u>208,943</u>
TOTAL LIABILITIES	<u><u>\$ 215,173</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 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.

The agency fund has no measurement focus but utilizes the *accrual basis of accounting* for reporting its assets and liabilities.

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, 2014. 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

**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)

5. Deferred outflows/inflows of resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District has no items that qualify for reporting in this category.

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 no items that qualify for reporting in this category.

6. 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.

7. 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.

**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)

8. 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.

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.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Revenues and Expenditures/Expenses (Continued)

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, 2014, 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	0.675

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.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

H. Revenues and Expenditures/Expenses (Concluded)

4. Long-term obligations (Concluded)

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, 2014, 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	\$ 550,732	0.4671	AA+	23.82%
MILAF External Investment pool - MIMAX	<u>1,761,071</u>	0.0027	AAAm	<u>76.18%</u>
Total fair value	<u>\$ 2,311,803</u>			<u>100.00%</u>
Portfolio weighted average maturity		<u>0.1133</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 (Continued)

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, 2014, 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, 2014, \$706,626 of the District’s bank balance of \$1,146,400 was exposed to custodial credit risk because it was uninsured and uncollateralized. The carrying amount is \$997,135. 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, 2014, the carrying amounts are as follows:

Deposits - including fiduciary funds of \$215,173	\$ 997,135
Investments	<u>2,311,803</u>
	<u><u>\$ 3,308,938</u></u>

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

Cash - agency fund	\$ 215,173
Government wide:	
Cash and cash equivalents	781,962
Investments	1,761,071
Investments - restricted debt service set-aside	<u>550,732</u>
	<u><u>\$ 3,308,938</u></u>

NOTE 3 - INTERGOVERNMENTAL RECEIVABLES

Intergovernmental receivables at June 30, 2014 consist of the following:

Intergovernmental units:	
State aid	\$ 870,695
Federal revenue	590,416
Other	<u>113,830</u>
	<u><u>\$ 1,574,941</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, 2013	Additions	Reclassifications /deletions	Balance June 30, 2014
Governmental activities:				
Capital assets, being depreciated				
Site improvements	\$ 1,799,695	\$ 20,715	\$ -	\$ 1,820,410
Buildings and improvements	14,479,065	-	-	14,479,065
Machinery and equipment	1,807,799	148,984	-	1,956,783
Transportation equipment	1,316,907	208,800	-	1,525,707
Total capital assets, being depreciated	19,403,466	378,499	-	19,781,965
Accumulated depreciation:				
Site improvements	366,509	82,646	-	449,155
Buildings and additions	8,813,626	333,444	-	9,147,070
Machinery and equipment	652,146	103,825	-	755,971
Transportation equipment	964,304	78,630	-	1,042,934
Total accumulated depreciation	10,796,585	598,545	-	11,395,130
Net capital assets being depreciated	8,606,881	(220,046)	-	8,386,835
Net governmental capital assets	\$ 8,606,881	\$ (220,046)	\$ -	\$ 8,386,835

Depreciation for the fiscal year ended June 30, 2014 amounted to \$598,545. The District allocated depreciation expense to the various activities as follows:

Instruction	\$ 343,078
Support services	8,367
Unallocated	247,100
	<u>\$ 598,545</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, 2014:

	<u>QZAB bonds</u>	<u>General obligation bonds</u>	<u>Sub-total bonds and notes</u>	<u>Compensated absences</u>	<u>Severance benefits</u>	<u>Total</u>
Balance, July 1, 2013	\$ 1,000,000	\$ 6,315,560	\$ 7,315,560	\$ 445,457	\$ 91,459	\$ 7,852,476
Deletions	-	292,704	292,704	40,291	7,659	340,654
Balance, June 30, 2014	1,000,000	6,022,856	7,022,856	405,166	83,800	7,511,822
Due within one year	-	315,000	315,000	78,000	8,000	401,000
Due in more than one year	<u>\$ 1,000,000</u>	<u>\$ 5,707,856</u>	<u>\$ 6,707,856</u>	<u>\$ 327,166</u>	<u>\$ 75,800</u>	<u>\$ 7,110,822</u>

Long-term obligation debt at June 30, 2014 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 \$315,000 to \$540,000 through May 1, 2028 with interest from 3.50% to 5.00%.	5,985,000
Plus: premium on bonds	<u>37,856</u>
Total bonded debt	7,022,856
Obligation under contract from compensated absences	405,166
Obligation under contract from severance benefits	<u>83,800</u>
Total long-term debt	<u>\$ 7,511,822</u>

Interest expense (all funds) for the year ended June 30, 2014 was approximately \$275,000.

**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, 2014, including interest of \$2,182,530 are as follows:

Year ending June 30,	Principal	Interest	Total
2015	\$ 315,000	\$ 265,824	\$ 580,824
2016	335,000	254,798	589,798
2017	345,000	243,074	588,074
2018	365,000	225,824	590,824
2019	385,000	207,574	592,574
2020 - 2024	3,165,000	750,496	3,915,496
2025 - 2028	2,075,000	234,940	2,309,940
Total	6,985,000	2,182,530	9,167,530
Premium on bonds	37,856	-	37,856
Accumulated compensated absences	405,166	-	405,166
Accumulated severance benefits	83,800	-	83,800
	<u>\$ 7,511,822</u>	<u>\$ 2,182,530</u>	<u>\$ 9,694,352</u>

NOTE 6 - INTERFUND RECEIVABLES AND PAYABLES

Interfund payable and receivable balances at June 30, 2014 are as follows:

Receivable fund		Payable fund	
General Fund	\$ 88,505	2008 Debt service	\$ 88,505
School lunch	4,524	General	4,524
	<u>\$ 93,029</u>		<u>\$ 93,029</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 District participates in the statewide Michigan Public School Employees' Retirement System (MPERS) which is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. The System's pension plan was established by the State to provide retirement, survivor, and disability benefits to public school employees. In addition, the System's health plan provides all retirees with the option of receiving health, dental and vision coverage under the Michigan Public School Employees' Retirement Act.

The System's financial statements are included as a pension and other employee benefit trust fund in the State of Michigan Comprehensive Annual Financial Report. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, Michigan 48909-7671 or by calling (800) 381-5111. It is also available at <http://www.michigan.gov/orsschools>.

The System is administered by the Office of Retirement Services within the Michigan Department of Technology, Management & Budget. The Department Director appoints the Office Director who serves as Executive Secretary to the System's Board, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer and custodian for the System.

Benefit Provisions - Pension

Introduction

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

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

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

Funding Policy

Member Contributions

Mandatory member contributions were phased out between 1974 and 1977, with the plan remaining noncontributory until January 1, 1987, when the Member Investment Plan (MIP) was enacted. MIP members enrolled prior to January 1, 1990, contribute at a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990, when it was reduced to 3.9%. Members first hired between January 1, 1990 and June 30, 2008, and returning members who did not work between January 1, 1987 through December 31, 1989, contribute at the following graduated permanently fixed contribution rates: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Members first hired July 1, 2008, or later including Pension Plus Plan members, contribute at the following graduated permanently fixed contribution rates: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 6.4% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan Member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987, or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Actuarial rate of interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves public school service and no pension is payable, the member's accumulated contributions plus interest, if any, are refundable.

Under Public Act 300 of 2012, eligible members voluntarily chose between increasing, maintaining, or stopping their contributions to the pension fund as of the transition date. Members who elected to increase their level of contribution contribute 4% (Basic Plan) or 7% (MIP); by doing so they maintain a 1.5% pension factor in their pension formula. Members who elected to maintain their level of contribution will receive a 1.25% pension factor in their pension formula for their years of service as of their transition date. Their contribution rates are described above. Members who elected to stop their contributions became participants in the Defined Contribution plan as of their transition date.

Employer Contributions

Each school district or reporting entity is required to contribute the full actuarial funding contribution amount to fund pension benefits on a prefunded basis. The School District pays an amount equal to a percentage of its employees' wages to the Michigan Public School Employees Retirement System ("MPERS"), which is administered by the State of Michigan. These contributions are required by law and are calculated by using the contribution rates and periods provided in the following table. The District contributions to MPERS were equal to the required contribution for those years.

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

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

Funding Policy (Concluded)

The School District's contributions to MPSERS are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Contributions to MPSERS</u>
2014	\$ 2,163,000
2013	1,926,000
2012	1,706,000

Included in the amounts paid above, the District received \$369,935 and \$140,107 of section 147(c) State Aid for the sole purpose of making supplemental payments to MPSERS. The District has recorded this amount as state revenue and additional pension expenditures/expenses for the years ended June 30, 2014 and 2013.

PA 464 Retirees Returning to Work, effective December 27, 2012 also requires applicable employer contributions to the defined benefit and defined contribution plans. These amounts if any are included in the amounts paid above.

HOUGHTON LAKE COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

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

		Fiscal Year 2014					
Contribution rates		Effective October 1, 2013					
Public School Employee Pension Rates (FYE Sept. 30th)			Pension Plus PHF - First worked after	Pension Plus to DC with PHF First worked after	Basic MIP DB to DC with DB Health	Basic MIP DB to DC with PHF	Basic MIP with PHF
	Basic MIP	Pension Plus	9/2/13	9/2/13			
DB Contributions							
Pension Normal Cost	2.90%	2.67%	2.67%	0.00%	0.00%	0.00%	2.90%
Pension UAL	14.08%	14.08%	14.08%	14.08%	14.08%	14.08%	14.08%
Pension Early Retirement Incentive	1.36%	1.36%	1.36%	1.36%	1.36%	1.36%	1.36%
Pension Contributions - Total Rate	18.34%	18.11%	18.11%	15.44%	15.44%	15.44%	18.34%
Health Normal Cost	0.93%	0.93%	0.00%	0.00%	0.93%	0.00%	0.00%
Health UAL	5.52%	5.52%	5.52%	5.52%	5.52%	5.52%	5.52%
Health Contributions - Total Rate	6.45%	6.45%	5.52%	5.52%	6.45%	5.52%	5.52%
Total	24.79%	24.56%	23.63%	20.96%	21.89%	20.96%	23.86%
DC Contributions							
DC Employer Contributions	0.00%	1.00%	1.00%	3.00%	4.00%	4.00%	0.00%
Personal Healthcare Fund	0.00%	0.00%	2.00%	2.00%	0.00%	2.00%	2.00%
Total	0.00%	1.00%	3.00%	5.00%	4.00%	6.00%	2.00%
Grand Total	24.79%	25.56%	26.63%	25.96%	25.89%	26.96%	25.86%

		Fiscal Year 2013					
		Effective February 1, 2013					
Public School Employee Pension Rates (FYE Sept. 30th)				Pension Plus PHF - First worked after 9/3/12	Pension Plus to DC with PHF First worked after 9/3/12	Basic MIP DB to DC with DB Health	Basic MIP with PHF
		Basic MIP	Pension Plus			Basic MIP DB to DC with PHF	
Grand Total		24.32%	24.13%	26.20%	25.96%	25.89%	25.39%

		Fiscal Year 2013			
Public School Employee Pension Rates (FYE Sept. 30th)		First worked before 7/1/10	First worked between 6/30/10 and 9/3/12	Pension Plus and First worked after 9/3/12	Elected DC and First worked after 9/3/12
Total		25.36%	24.13%	23.20%	20.96%

		Fiscal Year 2012			
Public School Employee Pension Rates (FYE Sept. 30th)		FY 2011 - 2012		11 months ended 9/30/11	
		First worked before 7/1/10	First worked after 6/30/10	First worked before 7/1/10	First worked after 6/30/10
Total		24.46%	23.23%	20.66%	19.16%

HOUGHTON LAKE COMMUNITY SCHOOLS NOTES TO FINANCIAL STATEMENTS

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

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.

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.

HOUGHTON LAKE COMMUNITY SCHOOLS NOTES TO FINANCIAL STATEMENTS

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. The general fund transferred \$38,000 to the 2008 debt service fund.

NOTE 10 - UPCOMING ACCOUNTING PRONOUNCEMENT

Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, was issued by the GASB in June 2012 and will be effective for the District's 2015 fiscal year. The Statement 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. Statement 68 requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the cost-sharing plan. The Statement also will improve the comparability and consistency of how governments calculate the pension liabilities and expense. The District is in the process of evaluating the financial statement impact of this statement and believes the impact of this statement will be significant.

NOTE 11 - CONTINGENCY

Subsequent to year-end, the District terminated the contract of an employee. Any resolution of this matter is subject to binding arbitration. No further information is known at the time these financial statements were issued.

REQUIRED SUPPLEMENTARY INFORMATION

**HOUGHTON LAKE COMMUNITY SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2014**

	Original budget	Final budget	Actual	Variance with final budget
REVENUES:				
Local sources	\$ 7,763,011	7,840,753	\$ 7,928,368	\$ 87,615
State sources	4,453,367	4,951,660	4,906,518	(45,142)
Federal sources	1,446,131	1,372,551	1,234,057	(138,494)
Incoming transfers and other	157,500	33,000	176,761	143,761
Total revenues	13,820,009	14,197,964	14,245,704	47,740
EXPENDITURES:				
Current:				
Instruction:				
Basic programs	6,348,963	6,198,465	6,174,777	23,688
Added needs	2,170,927	2,079,121	2,067,545	11,576
Adult education	93,322	99,592	88,496	11,096
Total instruction	8,613,212	8,377,178	8,330,818	46,360
Supporting services:				
Pupil	704,667	744,311	735,747	8,564
Instructional staff	230,365	281,047	277,054	3,993
General administration	317,624	278,651	278,708	(57)
School administration	964,257	990,507	988,715	1,792
Business	364,952	379,837	375,221	4,616
Operation/maintenance	1,043,521	1,258,551	1,225,350	33,201
Pupil transportation	926,487	1,266,336	1,239,987	26,349
Central	530,864	534,838	547,405	(12,567)
Total supporting services	5,082,737	5,734,078	5,668,187	65,891
Community services	87,529	111,300	157,950	(46,650)
Total expenditures	13,783,478	14,222,556	14,156,955	65,601
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	36,531	(24,592)	88,749	113,341
OTHER FINANCING SOURCES (USES):				
Transfers out	(64,684)	(64,684)	(102,684)	(38,000)
NET CHANGE IN FUND BALANCE	<u>\$ (28,153)</u>	<u>\$ (89,276)</u>	(13,935)	<u>\$ 75,341</u>
FUND BALANCE:				
Beginning of year			3,140,924	
End of year			<u>\$ 3,126,989</u>	

ADDITIONAL SUPPLEMENTARY INFORMATION

**HOUGHTON LAKE COMMUNITY SCHOOLS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND
JUNE 30, 2014**

	<u>Special revenue</u>		<u>Total nonmajor funds</u>
	<u>Food service</u>	<u>2008 Debt service</u>	
ASSETS			
ASSETS:			
Cash and cash equivalents	\$ 173,819	\$ 88,706	\$ 262,525
Intergovernmental receivable	858	-	858
Due from other funds	4,524	-	4,524
Inventories	6,321	-	6,321
Prepays	72,000	-	72,000
TOTAL ASSETS	<u>\$ 257,522</u>	<u>\$ 88,706</u>	<u>\$ 346,228</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	\$ 29,772	\$ -	\$ 29,772
Due to other funds	<u>-</u>	<u>88,505</u>	<u>88,505</u>
TOTAL LIABILITIES	<u>29,772</u>	<u>88,505</u>	<u>118,277</u>
FUND BALANCES:			
Nonspendable:			
Inventories	6,321	-	6,321
Prepays	72,000	-	72,000
Restricted for:			
Debt service	-	201	201
Food service	<u>149,429</u>	<u>-</u>	<u>149,429</u>
TOTAL FUND BALANCES	<u>227,750</u>	<u>201</u>	<u>227,951</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 257,522</u>	<u>\$ 88,706</u>	<u>\$ 346,228</u>

**HOUGHTON LAKE COMMUNITY SCHOOLS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUND
YEAR ENDED JUNE 30, 2014**

	<u>Special revenue</u>		<u>Total nonmajor funds</u>
	<u>Food service</u>	<u>2008 Debt service</u>	
REVENUES:			
Local sources:			
Property taxes	\$ -	\$ 488,710	\$ 488,710
Food sales	132,690	-	132,690
Total local sources	132,690	488,710	621,400
State sources	22,166	-	22,166
Federal sources	678,281	-	678,281
Total revenues	833,137	488,710	1,321,847
EXPENDITURES:			
Current:			
Food service activities	761,847	-	761,847
Capital outlay	1,315	-	1,315
Debt service:			
Principal repayment	-	290,000	290,000
Interest expense	-	264,554	264,554
Total expenditures	763,162	554,554	1,317,716
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	69,975	(65,844)	4,131
OTHER FINANCING SOURCES (USES):			
Transfers in	-	38,000	38,000
NET CHANGE IN FUND BALANCES	69,975	(27,844)	42,131
FUND BALANCES:			
Beginning of year	157,775	28,045	185,820
End of year	\$ 227,750	\$ 201	\$ 227,951

**HOUGHTON LAKE COMMUNITY SCHOOLS
BONDED DEBT
QUALIFIED ZONE ACADEMY BONDS (QZAB)
JUNE 30, 2014**

<u>Calendar Year</u>	<u>Interest rate</u>	<u>Principal due June 21</u>
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, 2014**

2008 General Obligation Bonds

Fiscal year year	Principal due May 1,	Interest due		Total due annually
		November 1	May 1	
2015	\$ 315,000	\$ 127,912	\$ 127,912	\$ 570,824
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>\$ 5,985,000</u>	<u>\$ 1,061,265</u>	<u>\$ 1,061,265</u>	<u>\$ 8,107,530</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, 2014

Federal grantor/pass-through grantor program title	Federal CFDA number	Pass-through grantor's number	Award amount	Accrued revenue 7/1/2013	Prior year expenditures (memorandum only)	Current year receipts (cash basis)	Current year expenditures	Accrued revenue 6/30/2014
<u>U.S. Department of Agriculture:</u>								
Passed through Michigan Department of Education:								
Child nutrition cluster:								
Non-cash assistance (donated food):	10.555							
National School Lunch Program - donated food Entitlement			\$ 57,398	\$ -	\$ -	\$ 57,398	\$ 57,398	\$ -
Total non-cash assistance			57,398	-	-	57,398	57,398	-
Cash assistance:								
School Breakfast Program	10.553	131970	117,556	3,381	120,937	16,047	12,666	-
		141970	117,159	-	-	117,159	117,159	-
			234,715	3,381	120,937	133,206	129,825	-
National School Lunch Program - Section 11	10.555	131980	6,131	7	6,019	40	33	-
		141980	3,925	-	-	3,925	3,925	-
		131960	443,444	21,623	437,426	75,577	53,954	-
		141960	432,288	-	-	432,288	432,288	-
			885,788	21,630	443,445	511,830	490,200	-
National School Lunch Program - Summer Food Service	10.559	130900-0913	1,167	1,167	1,167	1,167	-	-
		131900-0913	121	121	121	121	-	-
		140900-0914	778	-	-	-	778	778
		141900-0914	80	-	-	-	80	80
			2,146	1,288	1,288	1,288	858	858
Total cash assistance			1,122,649	26,299	565,670	646,324	620,883	858
Total U.S. Department of Agriculture (Cluster total)			1,180,047	26,299	565,670	703,722	678,281	858

The accompanying notes are an integral part of this schedule.

HOUGHTON LAKE COMMUNITY SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2014

Federal grantor/pass-through grantor program title	Federal CFDA number	Pass-through grantor's number	Award amount	Accrued revenue 7/1/2013	Prior year expenditures (memorandum only)	Current year receipts (cash basis)	Current year expenditures	Accrued revenue 6/30/2014
<u>U.S. Department of Education:</u>								
Passed through C.O.O.R.I.S.D.:								
Special Education Cluster:								
Special Education Flow Through Grant	84.027	130450-1213	\$ 378,715	\$ 39,238	\$ 378,715	\$ 39,238	\$ -	\$ -
		140450-1314	380,670	-	-	-	378,096	378,096
Total Special Education			<u>759,385</u>	<u>39,238</u>	<u>378,715</u>	<u>39,238</u>	<u>378,096</u>	<u>378,096</u>
Passed through Michigan Department of Education:								
Adult Basic Education	84.002	131130-131777	140,000	72,253	113,096	72,253	-	-
		141130-141777	64,177	-	-	-	63,463	63,463
		131190-131777	29,000	13,295	28,307	13,295	-	-
		141190-141777	29,000	-	-	8,480	20,973	12,493
Total Adult Basic Education			<u>262,177</u>	<u>85,548</u>	<u>141,403</u>	<u>94,028</u>	<u>84,436</u>	<u>75,956</u>
Title I:								
Title I	84.010	131530-1213	827,372	271,756	779,449	271,756	-	-
		141530-1314	705,737	-	-	505,632	599,452	93,820
Total Title I			<u>1,533,109</u>	<u>271,756</u>	<u>779,449</u>	<u>777,388</u>	<u>599,452</u>	<u>93,820</u>

The accompanying notes are an integral part of this schedule.

HOUGHTON LAKE COMMUNITY SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2014

Federal grantor/pass-through grantor program title	Federal CFDA number	Pass-through grantor's number	Award amount	Accrued revenue 7/1/2013	Prior year expenditures (memorandum only)	Current year receipts (cash basis)	Current year expenditures	Accrued revenue 6/30/2014
<u>U.S. Department of Education (Concluded):</u>								
Passed through Michigan Department of Education (Concluded):								
Title II - Improving Teacher Quality	84.367	130520-1213	\$ 175,921	\$ 91,206	\$ 127,690	\$ 91,206	\$ -	\$ -
		140520-1314	146,252	-	-	44,274	74,631	30,357
Total Title II - Improving Teacher Quality			322,173	91,206	127,690	135,480	74,631	30,357
Title VIB	84.358B	130660-1213	31,026	24,091	24,091	24,091	-	-
		140660-1314	46,366	-	-	40,913	43,913	3,000
Total Title VIB			77,392	24,091	24,091	65,004	43,913	3,000
Total passed through Michigan Department of Education			2,194,851	472,601	1,072,633	1,071,900	802,432	203,133
Total U.S. Department of Education			2,954,236	511,839	1,451,348	1,111,138	1,180,528	581,229
<u>U.S. Department of Health and Human Services</u>								
Passed through Michigan Department of Health and Human Services								
Safe Schools and Healthy Students	93.243	132704-SSHS14	48,373	-	-	40,044	48,373	8,329
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 4,182,656	\$ 538,138	\$ 2,017,018	\$ 1,854,904	\$ 1,907,182	\$ 590,416

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, 2014**

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, 2014. 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. Title I (CFDA #84.010) and Special Education Flow Through Grant (CFDA 84.027) were audited as a major program, representing 51% 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	\$ 1,234,057
Other non-major governmental funds revenue	<u>678,281</u>
	1,912,338
Less federal forest payments not subject to OMB Circular A-133	<u>(5,156)</u>
Total federal expenditures	<u><u>\$ 1,907,182</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, 2014, 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 September 9, 2014.

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.

Manes Costeiran PC

September 9, 2014

**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, 2014. 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, 2014.

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.

Maney Costeiran PC

September 9, 2014

**HOUGHTON LAKE COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditors' 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 auditors' report issued on compliance for major *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:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I
84.027	Special Education Flow through

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, 2014**

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