

# **Hillsdale Community Schools**

Financial Report  
With Supplemental Information

Year Ended June 30, 2015

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## Independent Auditors' Report

Board of Education  
Hillsdale Community Schools  
Hillsdale, Michigan

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hillsdale Community Schools, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School 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.

### Auditors' 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 *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Hillsdale Community Schools, as of June 30, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Change in Accounting Principle**

As discussed in Note 1 to the financial statements, in the fiscal year ended June 30, 2015, Hillsdale Community Schools implemented new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and certain pension information as listed 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 Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2015, on our consideration of Hillsdale 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 Hillsdale Community Schools' internal control over financial reporting and compliance.

*Willis & Jurasek, P.C.*

Willis & Jurasek, P.C.

October 22, 2015

# Hillsdale Community Schools

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## Management's Discussion and Analysis Year Ended June 30, 2015

Our discussion and analysis of Hillsdale Community Schools' financial performance provides an overview of the School District's financial activities for the fiscal year ended June 30, 2014. The management's discussion and analysis is provided at the beginning of the audit to provide in layman's terms, the past and current position of the School District's financial condition. This summary should not be taken as a replacement for the audit which consists of the financial statements and other supplemental information that presents all the revenues and expenditures by program for all the District's funds.

### **USING THIS ANNUAL REPORT**

The School District's annual report consists of a series of financial statements that show information for the School District as a whole, its funds, and its fiduciary responsibilities. The Statement of Net Position and the Statement of Activities (pages 1 - 2), provide information about the activities of the School District as a whole and present a longer-term view of the School District's finances. Our fund financial statements start on page 3. Our governmental activities statements tell how we financed our services in the short-term, as well as what remains for future spending. Fund financial statements report the School District's operations in more detail than governmental-wide financial statements by providing information about the School District's most significant funds. The remaining statement provides information about activities for which the School District acts solely as an agent for the benefit of student groups.

### **Reporting the School District as a Whole**

One of the most important questions asked about the School District is, "Is the School District as a whole better off or worse off financially as a result of the year's activities?" The Statement of Net Position and the Statement of Activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps answer this question. We prepared these statements to include all assets and liabilities, using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenue and expenses, regardless of when cash is received or paid.

These two statements report the School District's *net position* – the difference between assets and liabilities – as one way to measure the School District's financial health or *financial position*. Over time, *increases* or *decreases* in the School District's net position – are one indicator of whether its *financial health* is improving or deteriorating. The relationship between revenues and expenses indicates the School District's *operating results*. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the school to assess the *overall health* of the School District.

### **Reporting the School District's Most Significant Funds**

The School District's Fund Financial Statements, which begin on page 3, provide detailed information about the School District's most significant funds – not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes other funds to help it control and manage money for particular purposes (like the Food Service Fund) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (like the Building & Site Fund).

# Hillsdale Community Schools

## Management's Discussion and Analysis Year Ended June 30, 2015

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

### The School District as Trustee

The School District is the trustee, or agent, for its student activity funds. All of the School District's agent activities are reported in a separate Statement of Fiduciary Net Position – Agency Funds on page 7. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

### The School District as a Whole

The School District's net position at June 30, 2015 was \$(7,520,216). Of this amount, \$(17,389,212) was unrestricted. Restricted net position is reported separately to show legal constraints that limit the School District's ability to use those assets for day-to-day operations. Below we focus our attention on the net position (TABLE 1) and changes in net position (TABLE 2) of the School District's governmental activities.

**TABLE 1 – Net Position**

	<u>2015</u>	<u>2014</u>
June 30, 2015 and 2014		
Current assets	\$ 4,605,602	\$ 4,194,124
Non-current assets	<u>8,726,309</u>	<u>8,708,344</u>
Total assets	<u>13,331,911</u>	<u>12,902,468</u>
Deferred outflows of resources	<u>1,795,764</u>	-
Current liabilities	2,909,521	2,525,487
Non-current liabilities	<u>17,796,732</u>	<u>17,601,448</u> **
Total liabilities	<u>20,706,253</u>	<u>20,126,935</u>
Deferred inflows of resources	<u>1,941,638</u>	-
Net position:		
Invested in capital assets – net of related debt	8,584,868	8,605,638
Restricted for food service	13,463	27,296
Restricted for capital projects	1,270,665	1,243,209
Unrestricted	<u>(17,389,212)</u>	<u>(17,100,610)</u>
Total net position	\$ <u>(7,520,216)</u>	\$ <u>(7,224,467)</u>

\*\* Includes deferred inflows and deferred outflows not separated out for fiscal year 2014.

# Hillsdale Community Schools

## Management's Discussion and Analysis Year Ended June 30, 2015

### The School District as a Whole (Concluded)

**TABLE 2 – Changes in Net Position**

Years ended June 30, 2015 and 2014

	2015	2014
Program Revenue		
Charges for Services	\$ 264,107	\$ 458,715
Operating Grants and Contributions	2,705,932	3,011,362
General Revenue		
Property Taxes-general purposes	2,007,081	2,030,702
Property Taxes-debt service, building and site	634,379	619,728
State School Aid	8,413,951	7,506,859
Miscellaneous	146,691	8,871
Total Revenue	<u>\$ 14,172,141</u>	<u>\$ 13,636,237</u>
Expenses		
Instruction	\$ 8,670,000	\$ 8,329,770
Support Services	4,270,378	4,308,425
Food Service	834,748	829,602
Community Services	8,788	-
Capital Outlay	18,402	-
Other	1,831	78,820
Depreciation – Unallocated	661,629	628,065
Interest on Long-Term Debt	2,114	-
Total Expenses	<u>\$ 14,467,890</u>	<u>\$ 14,174,682</u>
INCREASE (DECREASE) IN NET POSITION	<u>\$ (295,749)</u>	<u>\$ (538,445)</u>

As shown above, the cost of all our governmental activities this year was \$14,467,890. However, the amount that our taxpayers ultimately financed for those activities through school property taxes was \$2,641,460. The remainder of the cost was paid by charges for services, State Aid and use of prior years' accumulation of funds.

There were several reasons for the change in the financial condition from 2014 – 2015:

- Significant decrease in student enrollment
- Staffing changes and increase in retirement expense
- Increase in certified teacher salary expenses per CBA
- Increase in employee health care costs
- Purchase of a school bus

### **MAJOR GOVERNMENTAL FUNDS BUDGETING AND OPERATING HIGHLIGHTS**

The School District's budgets are prepared according to Michigan law. The most significant budgeted fund is the General Fund. During the fiscal year ended June 30, 2015, the School District amended the General Fund Budget two times.

# Hillsdale Community Schools

## Management's Discussion and Analysis Year Ended June 30, 2015

### General Fund

The actual revenue and transfers-in of the General Fund was \$12,803,476, above the original budget estimates of \$12,384,640, and the final amended budget of \$12,776,543. (The higher than expected enrollment resulted in increased general fund revenue. The District did not expend as much federal grant funding as was available during the fiscal year; therefore the District did not request revenue to offset all of the planned expenditures.)

The actual expenditures of the General Fund were \$12,890,832, above original budget estimates of \$12,187,410, and below the final amended budget of \$12,994,393. (While the district did not spend all of the federal grant funds which became available during the year, there were more than originally planned for at the beginning of the fiscal year. There were also higher than originally planned costs for personnel and for retirement costs of personnel.)

### CAPITAL ASSET AND DEBT ADMINISTRATION

At the end of fiscal year 2015, the School District had \$25,268,167 invested in land and buildings, furniture and equipment, and vehicles. We have estimated that these assets have depreciated by \$16,541,858 through June 30, 2015; therefore, we currently have net book value of \$8,726,309.

Total additions for the year amounted to \$679,594, which consisted of a new school bus, a new storage building at Gier Elementary, new windows at Davis Middle School and Gier Elementary, a new water heater for the high school, and construction in progress for Gier Elementary renovations.

	<b>2015</b>	<b>2014</b>
Land	\$ 76,034	\$ 76,034
Construction in progress	248,540	-
Buildings and improvements	18,465,994	18,121,128
Furniture and equipment	5,054,248	5,054,248
Vehicles	1,191,700	1,105,512
Infrastructure	231,651	231,651
Less: accumulated depreciation	<u>(16,541,858)</u>	<u>(15,880,229)</u>
	<b><u>\$ 8,726,309</u></b>	<b><u>\$ 8,708,344</u></b>

At June 30, 2015, the School District had \$141,441 in general obligation debt.

	<b>2015</b>	<b>2014</b>
School buses	\$ 141,441	\$ 102,706
Early retirement incentive	<u>-</u>	<u>70,000</u>
	<b><u>\$ 141,441</u></b>	<b><u>\$ 172,706</u></b>

Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, was implemented during the fiscal year. The purpose of this standard is to improve accounting and financial reporting for pensions. It established standards for measuring and recognizing pension liabilities, pension expenses, and the related deferred inflows and deferred outflows of resources. Implementation of this standard requires recording of the full unfunded portion of the District's pension plan administered through the Michigan Public School Employees' Retirement System (MPERS). The unfunded pension liability has been established

# Hillsdale Community Schools

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## Management's Discussion and Analysis Year Ended June 30, 2015

through actuarial valuations and will be amortized over a 22 year period beginning with the plan's fiscal year-end of September 30, 2014. With the recording of this pension liability, the liabilities of the District exceeded its assets.

### **FACTORS BEARING ON THE DISTRICT'S FUTURE**

The overall District enrollment is projected to continue a declining trend due to multiple factors. There are four separate school systems located within Hillsdale and all of the seven additional community school district is actively competing for students under the schools of choice options. Furthermore, as more families leave the area due to prolonged unemployment, new losses of work and lack of newly created jobs. In 2013-14 there was a 5% decline in K-12 enrollment county-wide.

The District has physical space available for expansion both in classrooms and utility areas. That capacity can allow for combined or consolidated services. The development of an Early Childhood Center has the potential to increase pre-school enrollment in the district. That potential growth may result in larger kindergarten classes in the future.

The District extended the transportation service agreement with Hillsdale County Intermediate School District keeping strength and capacity for consolidated transportation cooperatives with the ISD. This was extended for a period of three years, with two additional years as optional.

The district's high school has been identified as a Reward School by the Michigan Department of Education for being in the Top 5% of all school across the state for improving student achievement for two consecutive years. Additionally, the district was recognized by US News and World Report with a Bronze Medal for being a top performing school at the national level for college preparation. These academic successes and recognitions have the potential to attract new students or bring back other students that may have left the district in prior years under the schools of choice options.

### **CONTACTING THE SCHOOL DISTRICT FINANCIAL MANAGEMENT**

This report is designed to give an overview of the financial conditions of the Hillsdale Community Schools. If you have any questions about this report or need further information, you may contact the Superintendent's Office by phone at 517-437-4401 located at 30 S. Norwood Avenue, Hillsdale, Michigan 49242.

# Hillsdale Community Schools

## Statement of Net Position

June 30, 2015

	<b>Governmental Activities</b>
<b>Assets:</b>	
Cash and investments	\$ 2,529,047
Receivables	83,686
Due from other governmental units	1,915,391
Inventories	12,700
Prepaid expenditures	64,778
Capital assets:	
Cost of capital assets	25,268,167
Less: accumulated depreciation	(16,541,858)
Net capital assets	8,726,309
Total assets	13,331,911
<b>Deferred Outflows of Resources:</b>	
Pension related	1,795,764
Total deferred outflows of resources	1,795,764
<b>Liabilities:</b>	
Accounts payable and accrued expenses	1,670,141
State aid anticipation notes	1,070,050
Unearned revenue	169,330
Long-term liabilities:	
Due within one year:	
Notes payable	47,147
Accrued interest	12,734
Due in more than one year:	
Notes payable	94,294
Compensated absences	79,181
Net pension liability	17,563,376
Total liabilities	20,706,253
<b>Deferred Inflows of Resources:</b>	
Pension related	1,941,638
Total deferred inflows of resources	1,941,638
<b>Net Position:</b>	
Invested in capital assets, net of related debt	8,584,868
Restricted for:	
Food service	13,463
Capital projects	1,270,665
Unrestricted	(17,389,212)
Total net position	\$ (7,520,216)

## Hillsdale Community Schools

Statement of Activities  
Year Ended June 30, 2015

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenue</u>		<u>Governmental Activities Net (Expenses) Revenues and Change in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
<b>Primary Government</b>				
Governmental activities:				
Instruction	\$ 8,670,000	\$ 5,425	\$ 1,817,232	\$ (6,847,343)
Support services	4,270,378	58,874	313,302	(3,898,202)
Food service activities	834,748	199,808	575,398	(59,542)
Community services	8,788	-	-	(8,788)
Other	1,831	-	-	(1,831)
Interest on long-term debt	2,114	-	-	(2,114)
Capital outlay	18,402	-	-	(18,402)
Depreciation (unallocated)	661,629	-	-	(661,629)
Total governmental activities	<u>\$ 14,467,890</u>	<u>\$ 264,107</u>	<u>\$ 2,705,932</u>	<u>(11,497,851)</u>
<b>General Revenues:</b>				
Taxes:				
Property taxes, levied for general purposes				2,007,081
Property taxes, levied for debt service				634,379
State aid not restricted to specific purposes				8,413,951
Unrestricted investment earnings				11,071
Other				135,120
Gain on sale of assets				500
Total general revenues				<u>11,202,102</u>
<b>Change in Net Position</b>				(295,749)
<b>Net Position - Beginning of Year</b>				<u>(7,224,467)</u>
<b>Net Position - End of Year</b>				<u><u>\$ (7,520,216)</u></u>

## Hillsdale Community Schools

Balance Sheet  
Governmental Funds  
June 30, 2015

	<u>General Fund</u>	<u>Building &amp; Site Fund</u>	<u>Nonmajor Food Service Fund</u>	<u>Total Governmental Funds</u>
<b><u>Assets</u></b>				
Cash and investments	\$ 1,202,304	\$ 1,290,565	\$ 36,178	\$ 2,529,047
Due from other funds	40,813	-	-	40,813
Receivable from other governments	1,915,391	-	-	1,915,391
Other receivables	59,523	-	24,163	83,686
Inventories	-	-	12,700	12,700
Prepaid expenditures	16,778	-	48,000	64,778
Total assets	<u>\$ 3,234,809</u>	<u>\$ 1,290,565</u>	<u>\$ 121,041</u>	<u>\$ 4,646,415</u>
 <b><u>Liabilities and Fund Balances</u></b>				
<b>Liabilities:</b>				
Accounts payable	\$ 5,866	\$ -	\$ 13,774	\$ 19,640
Due to other funds	-	-	40,813	40,813
Revenue anticipation notes	1,070,050	-	-	1,070,050
Unearned revenue	162,319	-	7,011	169,330
Salaries payable and related	1,584,621	-	45,980	1,630,601
Accrued expenditures	12,734	19,900	-	32,634
Total liabilities	<u>2,835,590</u>	<u>19,900</u>	<u>107,578</u>	<u>2,963,068</u>
 <b>Fund Balances:</b>				
Nonspendable:				
Inventories	-	-	12,700	12,700
Prepaid expenditures	16,778	-	48,000	64,778
Restricted:				
Food services	-	-	(47,237)	(47,237)
Capital projects	-	1,270,665	-	1,270,665
Committed	45,000	-	-	45,000
Assigned	76,768	-	-	76,768
Unassigned	260,673	-	-	260,673
Total fund balances	<u>399,219</u>	<u>1,270,665</u>	<u>13,463</u>	<u>1,683,347</u>
Total liabilities and fund balances	<u>\$ 3,234,809</u>	<u>\$ 1,290,565</u>	<u>\$ 121,041</u>	<u>\$ 4,646,415</u>

**Hillsdale Community Schools**

Reconciliation of Fund Balances on the Balance Sheet of Governmental Funds to  
Net Position of Governmental Activities on the Statement of Net Position  
June 30, 2015

**Total Fund Balances - Governmental Funds** \$ 1,683,347

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.

The cost of capital assets is	\$ 25,268,167	
Accumulated depreciation is	<u>(16,541,858)</u>	8,726,309

Long-term liabilities and related deferred outflows and inflows are not due and payable in the current period and not reported in the funds.

Notes payable	(141,441)	
Compensated absences	(79,181)	
Deferred outflows related to net pension liability	1,795,764	
Deferred inflows related to net pension liability	(1,941,638)	
Net pension liability	<u>(17,563,376)</u>	<u>(17,929,872)</u>

**Total Net Position - Governmental Activities:** \$ (7,520,216)

**Hillsdale Community Schools**  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
Year Ended June 30, 2015

	<u>General Fund</u>	<u>Building &amp; Site Fund</u>	<u>Nonmajor Food Service Fund</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
Local sources	\$ 2,275,904	\$ 641,095	\$ 248,360	\$ 3,165,359
State sources	9,822,923	-	43,290	9,866,213
Federal sources	573,814	-	522,108	1,095,922
Interdistrict and other	130,835	-	-	130,835
Total revenues	<u>12,803,476</u>	<u>641,095</u>	<u>813,758</u>	<u>14,258,329</u>
<b>Expenditures:</b>				
Instruction	8,554,030	-	-	8,554,030
Support services	4,278,447	-	-	4,278,447
Community services	8,788	-	-	8,788
Food service activities	-	-	834,748	834,748
Other	-	1,831	-	1,831
Debt service:				
Principal	47,140	-	-	47,140
Interest and other charges	2,427	-	-	2,427
Capital outlay	-	611,808	-	611,808
Total expenditures	<u>12,890,832</u>	<u>613,639</u>	<u>834,748</u>	<u>14,339,219</u>
<b>Revenues Over (Under) Expenditures</b>	<u>(87,356)</u>	<u>27,456</u>	<u>(20,990)</u>	<u>(80,890)</u>
<b>Other Financing Sources (Uses):</b>				
Transfers in	-	-	7,160	7,160
Transfers out	(7,160)	-	-	(7,160)
Total other financing sources (uses)	<u>(7,160)</u>	<u>-</u>	<u>7,160</u>	<u>-</u>
<b>Net Changes in Fund Balances</b>	(94,516)	27,456	(13,830)	(80,890)
<b>Fund Balances - Beginning of Year</b>	<u>493,735</u>	<u>1,243,209</u>	<u>27,293</u>	<u>1,764,237</u>
<b>Fund Balances - End of Year</b>	<u>\$ 399,219</u>	<u>\$ 1,270,665</u>	<u>\$ 13,463</u>	<u>\$ 1,683,347</u>

## Hillsdale Community Schools

### Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2015

**Net Change in Fund Balances - Total Governmental Funds** \$ (80,890)

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	\$ (661,629)	
Capital outlay	<u>679,594</u>	17,965

Governmental funds report bond proceeds as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of bond principal as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. This is the amount by which repayments exceeded proceeds.

Debt issued	(86,188)	
Repayments to note holders	47,453	
Payment of early retirement incentive	70,000	
Change in compensated absences	<u>10,881</u>	42,146

Governmental funds report the required pension contributions for the fiscal year June 30, 2015 as an expenditure. The Statement of Activities reports the fully accrued pension expense based upon a September year-end to coincide with the State of Michigan's fiscal year. These differences are reported as follows:

Pension expense	(1,422,683)	
Contribution expenditures post September 30, 2014	<u>1,147,713</u>	(274,970)

**Change in Net Position of Governmental Activities:** \$ (295,749)

**Hillsdale Community Schools**  
Statement of Fiduciary Net Position  
Fiduciary Funds  
June 30, 2015

	<u>Agency Fund</u>
<b>Assets:</b>	
Cash and cash equivalents	\$ 145,264
<b>Liabilities:</b>	
Due to student groups	\$ 145,264

**Hillsdale Community Schools**  
Notes to Financial Statements

**Note 1 – Summary of Significant Accounting Policies**

The basic financial statements of Hillsdale Community Schools (the “School District” or “District”) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District’s accounting policies are described below.

**Reporting Entity**

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District’s reporting entity, and which organizations are legally separate, component units of the School District. Based on the application of the criteria, the District does not contain any component units.

**Implementation of GASB Statement No. 68**

The School District has implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, which was promulgated with the purpose of improving accounting and financial reporting for pensions. The Statement established standards for measuring and recognizing pension liabilities, pension expenses, and the related deferred inflows and deferred outflows of resources. As a result of this implementation, which was effective July 1, 2014, the beginning net position has been adjusted to reflect the beginning of year balances of the net pension liability and related deferrals of inflows and outflows of resources. This restatement is as follows:

Net position, as originally reported	\$ 10,209,813
Adjustment for net pension liability and related deferred inflows and outflows	<u>(17,434,280)</u>
Restated beginning net position	<u>\$ (7,224,467)</u>

See Note 10 for further information.

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

**District-Wide and Fund Financial Statements**

The district-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District’s government-wide activities are considered governmental activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other unrestricted items are not included as program revenues but instead as general revenue. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**Hillsdale Community Schools**  
Notes to Financial Statements

**Note 1 – Summary of Significant Accounting Policies (Continued)**

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)**

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

It is the District's policy to allocate resource outlays first to restricted net position with the remainder allocated to unrestricted net position.

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

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

Property taxes, unrestricted State aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

The fiduciary fund statement is also reported using the economic resources measurement focus and the accrual basis of accounting.

The School District reports the following major governmental funds:

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

**Building & Site Fund** – The Building & Site Fund is used to record tax receipts or other revenue and the disbursement of monies specifically designated for acquiring new school sites, buildings, equipment, and for remodeling.

Additionally, the government reports the following fund types:

**Special Revenue Funds** – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes (not including expendable trusts or major capital projects). The Special Revenue Fund maintained by the District is the Food Service Fund.

**Fiduciary Funds** – Fiduciary Funds are used to account for assets held by the District in a trustee capacity or as an agent. Fiduciary Fund net assets and results of operations are not included in the district-wide statements.

**Hillsdale Community Schools**  
Notes to Financial Statements

**Note 1 – Summary of Significant Accounting Policies (Continued)**

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)**

**Fiduciary Funds (Continued)** - The agency funds are custodial in nature (assets equal liabilities) and do not involve measurements of results of operations. The District presently maintains a Student Activities Fund to record the transactions of student and parent groups for school-related purposes. The funds are segregated and held in trust for the students and parents.

**Revenue, Assets, Liabilities, and Net Position or Equity**

**State Revenue** – The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The foundation is funded from State and local sources. Revenues from State sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of State funds to school districts based on information supplied by the districts. For the year ended June 30, 2015, the foundation allowance was based on pupil membership counts taken in September 2014 and February 2015.

The State portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2014 to August 2015. Thus, the unpaid portion at June 30<sup>th</sup> is reported as due from other governmental units.

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

**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 December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

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

General Fund – non-primary residence	18.0000
General Fund – commercial personal property	6.0000
Building & Site Fund	1.9980

**Deposits and Investments** – Cash and cash equivalents include cash on hand, demand deposits, and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40, *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the District intends to hold the investment until maturity. Accordingly, investments in bankers' acceptances and commercial paper are recorded at amortized cost.

**Hillsdale Community Schools**  
Notes to Financial Statements

**Note 1 – Summary of Significant Accounting Policies (Continued)**

**Revenue, Assets, Liabilities, and Net Position or Equity (Continued)**

**Deposits and Investments (Continued)** - State statutes authorize the District to invest in bonds, and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; and 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. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

**Receivables and Payables** – In general, outstanding balances between funds are reported as “due to/from other funds.” Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “advances to/from other funds.” Property tax and other trade receivables are shown net of an allowance for uncollectible amounts. The District has determined the uncollectible amounts are immaterial and no provision has been recorded.

**Inventories and Prepaid Items** – Inventories are valued at cost on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both district-wide and fund financial statements.

**Capital Assets** - Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities column in the district-wide financial statements. The government defines capital assets as assets with an initial individual cost of \$5,000 or greater and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized.

Fixed assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	15-50 years
Infrastructure	20 years
Buses and other vehicles	5-10 years
Furniture and equipment	5-10 years

**Compensated Absences** - The District reports a liability for compensated absences which consists of unpaid, accumulated sick leave balances. The liability has been calculated using the vesting method in which leave amounts for employees who are currently eligible to receive termination payments are included.

**Long-Term Obligations** – In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed as incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**Hillsdale Community Schools**  
Notes to Financial Statements

**Note 1 – Summary of Significant Accounting Policies (Continued)**

**Revenue, Assets, Liabilities, and Net Position or Equity (Continued)**

**Fund Equity** – The District has implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. In accordance with this guidance, fund balances of governmental funds are categorized according to five defined categories of fund balance. These categories consist of nonspendable amounts which are legally or contractually required to be maintained intact, restricted amounts that are constrained for specific purposes set by external parties or law, committed amounts that are constraints set by the highest decision making authority (the School Board) and may only be removed by those individuals, assigned amounts that have an intended but no formal specific purpose, and unassigned amounts which are the residual of the other categories and have no specific purpose.

It is the District's policy to generally use fund balance in order according to the hierarchy of fund balance categories, from restricted down to unassigned.

**Defined Benefit Pension Plan** – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Michigan Public Employees' Retirement System (MPERS) and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. See Note 10 for detailed information.

**Use of Estimates** - 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 expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**Note 2 – Stewardship, Compliance, and Accountability**

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriations lapse at fiscal year-end. 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 supplemental information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the *Uniform Budgeting and Accounting Act* (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will 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, for the General Fund are noted in the required supplemental information section.
4. The Superintendent is authorized to transfer budgeted amounts between major expenditures 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.

**Hillsdale Community Schools**  
Notes to Financial Statements

**Note 2 – Stewardship, Compliance, and Accountability (Continued)**

5. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.
6. The budget was amended during the year with supplemental appropriations, the last one approved prior to fiscal year-end.

**Note 3 – Deposits and Investments**

At year-end, the District's deposits were reported in the basic financial statements in the following categories:

	<b>Governmental Activities</b>	<b>Fiduciary Funds</b>	<b>Total Primary Government</b>
Cash and cash equivalents	<u>\$ 2,529,047</u>	<u>\$ 145,264</u>	<u>\$ 2,674,311</u>

The breakdown between deposits and investments for the School District is as follows:

Deposits (checking and savings accounts)	\$2,672,518
Investments in pooled investments	1,584
Petty cash and cash on hand	<u>209</u>
Total	<u>\$2,674,311</u>

**Investment and Deposit Risk**

**Interest Rate Risk** – State law limits the allowable investments and the maturities of some of the allowable investments. The District's investment policy does not have specific limits in excess of State law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Credit Risk** – State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers' acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools. The District's investments under the interlocal agreement (MILAF) in the amount of \$1,584 are regulated by the Urban Cooperation Act. The fair value of the position in the interlocal agreement pools is the same as the value of the pool shares. The interlocal agreement (MILAF) is rated at AAA according to Standard and Poor's.

**Custodial Credit Risk – Deposits** – Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. The District requires that financial institutions be evaluated and only those with an acceptable risk level are used for the District's deposits for custodial credit risk. At year-end, the District's deposit balance of approximately \$2,758,000 had \$2,395,000 of bank deposits that were uninsured and uncollateralized.

**Note 4 – Receivables**

Receivables at year end totaled \$1,999,077 and consist mainly of amounts due from the Michigan Department of Education for State aid and federal grants.

**Hillsdale Community Schools**  
Notes to Financial Statements

**Note 5 – Capital Assets**

Capital asset activity of the School District’s governmental activities was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Year-End Balance</u>
Capital assets not being depreciated:				
Land	\$ 76,034	\$ -	\$ -	\$ 76,034
Construction in progress	-	248,540	-	248,540
Subtotal	<u>76,034</u>	<u>248,540</u>	<u>-</u>	<u>324,574</u>
Capital assets being depreciated:				
Building and improvements	18,121,128	344,866	-	18,465,994
Infrastructure	231,651	-	-	231,651
Buses and other vehicles	1,105,512	86,188	-	1,191,700
Furniture and equipment	5,054,248	-	-	5,054,248
Subtotal	<u>24,512,539</u>	<u>431,054</u>	<u>-</u>	<u>24,943,593</u>
Accumulated depreciation:				
Buildings and improvements	9,910,744	566,583	-	10,477,327
Infrastructure	147,872	11,583	-	159,455
Buses and other vehicles	885,231	60,818	-	946,049
Furniture and equipment	4,936,382	22,645	-	4,959,027
Subtotal	<u>15,880,229</u>	<u>661,629</u>	<u>-</u>	<u>16,541,858</u>
Net capital assets being depreciated	<u>8,632,310</u>	<u>(230,575)</u>	<u>-</u>	<u>8,401,735</u>
Net capital assets	<u>\$ 8,708,344</u>	<u>\$ 17,965</u>	<u>\$ -</u>	<u>\$ 8,726,309</u>

Included in the building and improvements category is an elementary school building that is currently idle and is stated at fair value of \$35,000. Depreciation for the current year totaled \$661,629. The District determined that it was impractical to allocate depreciation to various governmental activities as the assets serve multiple functions.

**Note 6 – Interfund Receivables, Payables and Transfers**

The District reports interfund balances between some of its funds. The sum of all balances presented in the table below agrees with the sum of interfund balances presented in the statements of net position/balance sheet for governmental funds. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

The composition of interfund balances is as follows:

	<u>Due To:</u>
	<u>General</u>
	<u>Fund</u>
Due From:	
Food Service Fund	\$ <u>40,813</u>

No transfer was made from the Food Service Fund to the General Fund for the current year to cover the indirect costs however \$7,160 was transferred from the General Fund to the food service to cover expenditures allowable under a state grant program.

**Hillsdale Community Schools**  
Notes to Financial Statements

**Note 7 – Revenue Anticipation Notes Payable**

At June 30, 2015, the School District had State Aid anticipation notes outstanding that totaled \$1,070,050 with interest rates of 0.420%-1.235% and maturity dates of July, 2015 and August, 2015. The notes are secured by the full faith and credit of the District as well as pledged State Aid. It is anticipated the District will issue a new note in August 2015.

<u>Balance</u> <u>June 30, 2014</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>June 30, 2015</u>
\$ <u>570,019</u>	\$ <u>1,500,000</u>	\$ <u>999,969</u>	\$ <u>1,070,050</u>

**Note 8 – Long-Term Debt**

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Activity is summarized as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Amounts Due</u> <u>Within One</u> <u>Year</u>
Governmental activities:					
Notes & leases	\$ 102,706	\$ 86,188	\$ 47,453	\$ 141,441	\$ 47,147
Early retirement incentive	70,000	-	70,000	-	-
Compensated absences	<u>90,062</u>	<u>-</u>	<u>10,881</u>	<u>79,181</u>	<u>-</u>
Total governmental activities	<u>\$ 262,768</u>	<u>\$ 86,188</u>	<u>\$ 128,334</u>	<u>\$ 220,622</u>	<u>\$ 47,147</u>

Annual debt service requirements on the above governmental bond and note obligations are as follows:

	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 47,147	\$ 2,216	\$ 49,363
2017	47,147	1,477	48,624
2018	<u>47,147</u>	<u>739</u>	<u>47,886</u>
Total	<u>\$ 141,441</u>	<u>\$ 4,432</u>	<u>\$ 145,873</u>

Long-term debt consists of:

Note payable – County National Bank, secured by buses; payable in annual installments of \$25,600 including interest at a rate of 2.01%; matures April 2018	\$ 76,800
Note payable – Southern Michigan Bank & Trust, secured by bus; payable in annual installments of \$21,547 including interest at a rate of 1.04%; matures June 2018	<u>64,641</u> <u>\$ 141,441</u>

**Hillsdale Community Schools**  
Notes to Financial Statements

**Note 9 – Risk Management**

The School District is exposed to various risks of loss related torts; theft of, damage to, and destruction of assets; errors and omissions; employee injuries 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 year, 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 School District has purchased commercial insurance for other risks of loss, including property and casualty, errors and omissions, fleet, and employee health and accident insurance. Settled claims relating to the commercial insurance did not exceed the amount of insurance coverage in any of the past three fiscal years.

**Note 10 – Defined Benefit Pension Plan and Post-Employment Benefits**

**Organization**

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

- Two active classroom teachers or other certified school personnel
- One active member or retirant from a non-certified support position
- One active school system superintendent
- One active finance or operations (non-superintendent) member
- One retirant from a classroom teaching position
- One retirant from a finance or operations management position
- One administrator or trustee of a community college that is a reporting unit of the System
- Two from the general public, one with health insurance or actuarial science experience and one with institutional investment experience
- One elected member of a reporting unit's board of control

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. There are 685 participating employers. A list of employers is provided in the Statistical Section. The System is a qualified pension trust fund under Section 401(a) of the Internal Revenue Code. By statute, employees of K-12 public school districts, public school academies, district libraries, tax-supported community colleges, and seven universities may be members. The seven universities are: Eastern Michigan, Central Michigan, Northern Michigan, Western Michigan, Ferris State, Michigan Technological, and Lake Superior State. Employees, who first become employed by one of the seven universities on or after January 1, 1996, become members of an alternative plan.

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.

**Hillsdale Community Schools**  
Notes to Financial Statements

**Note 10 – Defined Benefit Pension Plan and Post-Employment Benefits (Continued)**

**Organization (Continued)**

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, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer and custodian for the System.

**Membership** - At September 30, 2014, the System's membership consisted of the following:

Inactive plan members or their beneficiaries currently receiving benefits:

Regular benefits	181,489
Survivor benefits	16,855
Disability benefits	<u>6,168</u>
Total	<u>204,512</u>

Inactive plan members entitled to but not yet receiving benefits: 16,979

Active plan members:

Vested	108,934
Non-vested	<u>101,843</u>
Total	<u>210,777</u>

Total plan members 432,268

**Benefits Provided** - Benefits 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 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.

**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 and December 31, 1989 contributed 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.

**Hillsdale Community Schools**  
Notes to Financial Statements

**Note 10 – Defined Benefit Pension Plan and Post-Employment Benefits (Continued)**

**Organization (Continued)**

**Member Contributions (Continued)** - 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 1<sup>st</sup> on all MIP monies on deposit for twelve 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. Their options are described in detail under Pension Reform 2012. 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.

**Summary of Significant Accounting Policies**

**Basis of Accounting and Presentation** - The System's financial statements are prepared using the accrual basis of accounting. Contributions from the employers are recognized as revenue when due and payable. Benefits and refunds are recognized when due and payable in accordance with the terms of the System. The reserves are described below and details are provided in the supporting schedules.

GASB Statement No. 67, which was adopted during the year ended September 30, 2014, addresses accounting and financial reporting requirements for pension plans. The requirements for GASB Statement No. 67 require changes in presentation of the financial statements, notes to the financial statements, and required supplementary information.

Significant changes include an actuarial calculation of total and net pension liability. It also includes comprehensive footnote disclosure regarding the pension liability, the sensitivity of the net pension liability to the discount rate, and increased investment activity disclosures. The implementation of GASB Statement No. 67 did not significantly impact the accounting for accounts receivable and investment balances.

**Reserves** - Reserve for Employee Contributions - This reserve represents active member contributions and interest less amounts transferred to the Reserve for Retired Benefit Payments for regular and disability retirement, amounts refunded to terminated members, and amounts transferred to the Reserve for Employer Contributions representing unclaimed funds.

Members no longer contribute to this reserve except to purchase eligible service credit or repay previously refunded contributions. At September 30, 2014, the balance in this reserve was \$1.5 billion.

Reserve for Pension Plus Employee Contributions - This reserve represents active member contributions and interest less amounts transferred to the Reserve for Pension Plus Retired Benefit Payments for regular retirement, amounts refunded to terminated members, and amounts transferred to the Reserve for Pension Plus Employer Contributions representing unclaimed funds. This reserve was established under the provisions of Public Act 75 of 2010. At September 30, 2014, the balance in this reserve was \$59.5 million.

**Hillsdale Community Schools**  
Notes to Financial Statements

**Note 10 – Defined Benefit Pension Plan and Post-Employment Benefits (Continued)**

**Summary of Significant Accounting Policies (Continued)**

**Reserves (Continued)** - Reserve for Member Investment Plan - This reserve represents MIP contributions and interest less refunds and transfers to the Reserve for Retired Benefit Payments. At September 30, 2014, the balance in this reserve was \$4.7 billion.

Reserve for Employer Contributions - This reserve represents all reporting unit contributions, except payments for health benefits. Interest from the Reserve for Undistributed Investment Income reserve is credited annually. Amounts are transferred annually to the Reserve for Retired Benefit Payments to bring the balance of that reserve into balance with the actuarial present value of retirement allowances. At September 30, 2014, the balance in this reserve was (\$25.8) billion.

Reserve for Pension Plus Employer Contributions - This reserve represents all reporting unit contributions for Pension Plus members, except payments for health benefits. Interest from the Reserve for Undistributed Investment Income reserve is credited annually at a rate of 7%. Amounts are transferred annually to the Reserve for Retired Pension Plus Benefit Payments to bring the balance of that reserve into balance with the actuarial present value of retirement allowances. This reserve was established under the provisions of Public Act 75 of 2010. At September 30, 2014, the balance in this reserve was \$55.5 million.

Reserve for Retired Benefit Payments - This reserve represents payments of future retirement benefits to current retirees. At retirement, a member's accumulated contributions plus interest are transferred into this reserve. Monthly benefits, which are paid to the retiree, reduce this reserve. At the end of each fiscal year, an amount, determined by an annual actuarial valuation, is transferred from the Reserve for Employer Contributions to bring the balance of this reserve into balance with the actuarial present value of retirement allowances. At September 30, 2014, the balance in this reserve was \$44.6 billion.

Reserve for Retired Pension Plus Benefit Payments - This reserve represents payments of future retirement benefits to current Pension Plus retirees. At retirement, a member's accumulated contributions plus interest are transferred into this reserve. Monthly benefits, which are paid to the retiree, reduce this reserve. At the end of each fiscal year, an amount, determined by an annual actuarial valuation, is transferred from the Reserve for Pension Plus Employer Contributions to bring the balance of this reserve into balance with the actuarial present value of retirement allowances. This reserve was established under the provisions of Public Act 75 of 2010. Currently, there are no participants qualified to retire under this program. At September 30, 2014, the balance in this reserve was \$0.

Reserve for Undistributed Investment Income - This reserve represents all investment earnings. Interest is transferred annually to the other reserves. Administrative expenses of the System are paid from the Reserve for Administrative Expenses, which is credited with amounts from the Reserve for Undistributed Investment Income to cover the expenses. For ease of reporting and understanding, the two reserves are presented as one reserve in the supporting schedules. Public Act 143 of 1997 established a stabilization subaccount within the Reserve for Undistributed Investment Income to which any over funding is credited. As of September 30, 2014, the balance in the subaccount was zero. At September 30, 2014, the balance in this reserve was \$18.6 billion.

Reserve for Health (OPEB) Related Benefits - This reserve is credited with employee and employer contributions for retirees' health, dental, and vision benefits. Starting in fiscal year 2013, the employer contribution is based on a prefunded basis and represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liability (or funding excess) over a period not to exceed thirty years. In addition, in fiscal year 2014, federal funding for Medicare Part D and Employer Group Waiver Plan (EGWP) was paid directly to a third party vendor. The third party vendor uses the EGWP funding for any claims submitted and bills the system for any remaining claims outstanding. Premiums for health, dental and vision benefits are paid from this reserve. At September 30, 2014, the balance in this reserve was \$3.5 billion.

**Hillsdale Community Schools**  
Notes to Financial Statements

**Note 10 – Defined Benefit Pension Plan and Post-Employment Benefits (Continued)**

**Summary of Significant Accounting Policies (Continued)**

**Reporting Entity** - The System is a pension and other employee benefit trust fund of the State. As such, the System is considered part of the State and is included in the State's Comprehensive Annual Financial Report as a pension and other employee benefit trust fund. The System and its Board are not financially accountable for any other entities or other organizations.

**Benefit Protection** - Public Act 100 of 2002 was passed by the Michigan Legislature to protect pension benefits of public employees from alienation (being transferred). Alienation is attachment, garnishment, levy, execution, bankruptcy or other legal process except for divorce orders or eligible domestic relation orders. The statutes governing the System contained an "anti-alienation" clause to provide for this protection; however, many smaller public pension systems did not have the benefit of this protection. Therefore, Public Act 100 of 2002 was passed to establish legal protection of pension assets that encompasses all public employees.

**Fair Value of Investments** - Plan investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Corporate bonds not traded on a national or international exchange are based on equivalent values of comparable securities with similar yield and risk. The fair value of private investments is based on the net asset value reported in the financial statements of the respective investment entity. The net asset value is determined in accordance with governing documents of the investment entity, and is subject to an independent annual audit. Securities purchased with cash collateral under securities lending activities are recorded at estimated fair value. Other investments not having an established market are recorded at estimated fair value.

**Investment Income** - Dividend and interest income is recognized on the accrual basis. Fair value changes are recorded as investment income or loss. Purchases and sales of investments are recorded as of the trade date (the date upon which the transaction is initiated), except for purchase and sale of mortgages, real estate, and alternative investments which are recorded as of the settlement date (the date upon which the transaction is ultimately completed). The effect of recording such transactions as of the settlement date does not materially affect the financial statements.

**Costs of Administering the System** - Each year a restricted general fund appropriation is requested to fund the on-going business operations of the System. These administrative costs are ultimately funded by the System through the regular transfer of funds from the System to the State's general fund based on either a direct cost or allocation basis depending on the nature of the expense. Costs of administering the System are financed by undistributed investment income of the System.

**Property and Equipment** - Office space is leased from the State on a year to year basis. Office equipment is capitalized if the value exceeds \$5,000. These assets are recorded at cost and are reported net of depreciation in the System's Statement of Pension Plan and Other Postemployment Benefit Plan Fiduciary Net Position. Such assets are depreciated on a straight-line basis over ten years. As of September 30, 1998, all capitalized equipment was fully depreciated. No additional equipment has been capitalized for the System since that date.

**Related Party Transactions - Leases and Services** - The System leases operating space and purchases certain administrative, data processing, legal, and investment services from the State. The space and services are not otherwise available by competitive bid.

**Cash** - At September 30, 2014, the System had \$246.7 million in a common cash investment pool maintained for various State operating funds. The participating funds in the common cash pool earn interest at various rates depending upon prevailing short-term interest rates. Earnings from these activities amounted to (\$0.6) thousand for the year ended September 30, 2014.

**Hillsdale Community Schools**  
Notes to Financial Statements

**Note 10 – Defined Benefit Pension Plan and Post-Employment Benefits (Continued)**

**Contributions and Funding Status**

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

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. For retirement and OPEB benefits, the unfunded (overfunded) actuarial accrued liability as of the September 30, 2014 valuation will be amortized over a 22 year period for the 2014 fiscal year. The schedule below summarizes pension contribution rates in effect for fiscal year 2014.

**Pension Contribution Rates**

<u>Benefit Structure</u>	<u>Member</u>	<u>Employer</u>
Basic	0.0 - 4.0%	18.34 - 19.61%
Member Investment Plan	3.0 - 7.0	18.34 - 19.61
Pension Plus	3.0 - 6.4	18.11
Defined Contribution	0.0	15.44 - 16.61

The System may reconcile with actuarial requirements annually. If the system reconciles in a year, any funding excess or deficiency for pension benefits is smoothed over a maximum of five years, with at least one-fifth (20%) of the funding excess or deficiency included in the subsequent year’s contribution. This payment is not recognized as a payable or receivable in the accounting records. If the System does not reconcile in a year, any funding excess or deficiency for pension benefits is accounted for in subsequent required contributions over the remaining amortization period. For fiscal year 2014, the System did not reconcile.

In May 1996, the Internal Revenue Service issued a private letter ruling allowing the System’s members to purchase service credit and repay refunds using tax-deferred (pre-tax) dollars. The program was implemented in fiscal year 1998, and payments began in fiscal year 1999.

The program allows members to purchase service credit and repay refunds on a tax-deferred basis. Members sign an irrevocable agreement that identifies the contract duration, monthly payment, total contract amount and years of service credit being purchased. The duration of the contract can range from one to twenty years. The amounts are withheld from members’ paychecks and are treated as employer pick-up contributions pursuant to Internal Revenue Code Section 414(h). At September 30, 2014, there were 16,503 agreements. The agreements were discounted using the assumed actuarial rate of return of 8% for September 30, 2014. The average remaining length of a contract was approximately 6.0 years for 2014. The short-term receivable was \$29.7 million and the discounted long-term receivable was \$83.6 million at September 30, 2014.

**Hillsdale Community Schools**  
Notes to Financial Statements

**Note 10 – Defined Benefit Pension Plan and Post-Employment Benefits (Continued)**

**Net Pension Liability**

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

**MPSERS (Plan) Net Pension Liability - Non-University as of September 30, 2014:**

Total pension liability	\$ 65,160,887,182
Plan fiduciary net position	<u>43,134,384,072</u>
Net pension liability	<u><u>\$ 22,026,503,110</u></u>
Plan fiduciary net position as a percentage of total pension liability	66.20%
Net pension liability as a percentage of covered-employee payroll	250.11%

Year 1 MPSERS GASB 68 implementation recognizes a 0.00% change in the reporting unit’s proportionate share between beginning net pension liability and ending net pension liability.

**MPSERS (Plan) Net Pension Liability - Non-University as of October 1, 2013:**

Total pension liability	\$ 62,859,499,994
Plan fiduciary net position	<u>39,427,686,072</u>
Net pension liability	<u><u>\$ 23,431,813,922</u></u>

**Proportionate Share of Reporting Unit’s Net Pension Liability** - At September 30, 2014, the Reporting Unit reported a liability of \$17,563,376 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2013. The Reporting Unit’s proportionate share of the net pension liability was based on statutorily required contributions in relation to all reporting units’ statutorily required contributions for the measurement period. At September 30, 2014, the Reporting Unit’s proportionate share percent was .07974 percent.

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

**Hillsdale Community Schools**  
Notes to Financial Statements

**Note 10 – Defined Benefit Pension Plan and Post-Employment Benefits (Continued)**

**Net Pension Liability (Continued)**

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2014, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return*</u>
Domestic equity pools	28.0%	4.8%
Alternative investment pools	18.0%	8.5%
International equity	16.0%	6.1%
Fixed income pools	10.5%	1.5%
Real estate & infrastructure pools	10.0%	5.3%
Absolute return pools	15.5%	6.3%
Short-term investment pools	<u>2.0%</u>	(0.2)%
Total	<u>100.0%</u>	

\*Long-term rate of return does not include 2.5% inflation.

**Rate of Return** - For the fiscal year ended September 30, 2014, the annual money-weighted rate of return on pension plan investment, net of pension plan investment expense, was 12.58%. The money weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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

**Sensitivity of the Net Position Liability to Changes in the Discount Rate** - As required by GASB Statement No. 68, the following presents the Reporting Unit's proportionate share of the net pension liability, calculated using a discount rate of 8.0% (7.0% for the Pension Plus Plan), as well as what the Reporting Unit's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher:

<u>Current Single Discount Rate</u>		
1% Decrease (Non-Hybrid/Hybrid)*	Assumption (Non-Hybrid/Hybrid)*	1% Increase (Non-Hybrid/Hybrid)*
<u>7.0%/6.0%</u>	<u>8.0%/7.0%</u>	<u>9.0%/8.0%</u>
<u>\$23,155,782</u>	<u>\$17,563,376</u>	<u>\$12,851,692</u>

**Timing of the Valuation** - An actuarial valuation to determine the total pension liability is required to be performed every year. If the actuarial valuation is not calculated as of the plan's fiscal year end, the total pension liability is required to be rolled forward from the actuarial valuation date to the pension plan's fiscal year end.

**Hillsdale Community Schools**  
Notes to Financial Statements

**Note 10 – Defined Benefit Pension Plan and Post-Employment Benefits (Continued)**

**Net Pension Liability (Continued)**

**Timing of the Valuation (Continued)** - The total pension liability as of September 30, 2014 is based on the results of an actuarial valuation date of September 30, 2013, and rolled forward using generally accepted actuarial procedures.

**Actuarial Valuations and Assumptions** - Actuarial valuations for the pension plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions (ARC) are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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

Additional information as of the latest actuarial valuation follows:

**Summary of Actuarial Assumptions**

Wage inflation rate	3.5%
Investment rate of return:	
MIP and Basic plans (non-hybrid)	8.0%
Pension Plus Plan (hybrid)	7.0%
Projected salary increase	3.5 – 12.3%, including wage inflation at 3.5%
Cost of living pension adjustments	3% annual non-compounded for MIP members
Healthcare cost trend rate	8.5% Year 1 graded to 3.5% Year 12
Mortality	RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

Notes:

- Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2014 is based on the results of an actuarial valuation date of September 30, 2013 and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years – 4.8457.
- Recognition period for assets in years is 5.0000.
- Full actuarial assumptions are available in the 2014 MPSERS Comprehensive Annual Financial Report.

**Hillsdale Community Schools**  
Notes to Financial Statements

**Note 10 – Defined Benefit Pension Plan and Post-Employment Benefits (Continued)**

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

For the year ended June 30, 2015, the Reporting Unit recognized total pension expense of \$1,422,683. At June 30, 2015, the Reporting Unit reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ -
Changes of assumptions	648,051	-
Net difference between projected and actual earnings on pension plan investments	-	1,941,638
Changes in proportion and differences between reporting unit contributions and proportionate share of contributions	-	-
Reporting unit contributions subsequent to the measurement date	1,147,713	-
Total	<u>\$ 1,795,764</u>	<u>\$ 1,941,638</u>

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

<u>Plan Year Ended September 30</u>	<u>Amount</u>
2015	\$316,896
2016	316,896
2017	316,896
2018	342,899

**Payables to the Pension Plan**

The Reporting Unit reported an accrued pension plan payable at June 30, 2015 of \$410,224. This amount represents employee withholdings and the employer amount payable for wages earned at June 30, 2015 but not yet paid.

**Post-Employment Benefits**

Retirees have the option of health coverage, which is currently funded on a cash disbursement basis. The System has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. A significant portion of the premium is paid by the System with the balance deducted from the monthly pension of each retiree health care recipient. Public Act 75 of 2010 requires each actively employed member of MPSERS after June 30, 2010 to contribute 3% (or 1.5%) of their compensation to offset employer contributions for health care benefits of current retirees.

**Hillsdale Community Schools**  
Notes to Financial Statements

**Note 10 – Defined Benefit Pension Plan and Post-Employment Benefits (Continued)**

**Post-Employment Benefits (Continued)**

For the school fiscal year that began July 1, 2010, members who were employed by a reporting unit and were paid less than \$18,000 in the prior school fiscal year and members who were hired on or after July 1, 2010, with a starting salary less than \$18,000 are required to contribute 1.5% of the member's compensation. For each school fiscal year that begins on or after July 1, 2011, members shall contribute 3% of compensation into the health care funding account.

For District employees first employed under the System after September 3, 2012 or those electing to choose the benefit during a special election period ending February 1, 2013, a Personal Healthcare Fund (PHF) is set up. Automatic 2% employee contributions to a 457 account along with a 2% employer match will be placed in a 401(k) account. This creates a portable, tax-deferred fund for the individual. No post-employment benefits are available for those employees.

See "Contributions and Funding Status" above for additional OPEB information.

**Note 11 – Federal and State Grants**

The District has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowance under terms of the grants, management believes that any required reimbursements would not be material.

**Note 12 - Sinking Fund**

The Sinking Fund records capital project activities funded with Sinking Fund millage. For this fund, the School District has complied with the applicable provisions of Section 1212(1) of the Revised School Code and the State of Michigan Department of Treasury Letter No. 01-95.

**Note 13 – Commitments/Subsequent Events**

The District has entered into a construction contract for improvements to one of the school buildings. Estimated costs are \$2,277,000. The project will be funded with cash reserves in the Building & Site fund and anticipated borrowings of \$995,000 in July 2015.

**Note 14 – Upcoming Accounting and Reporting Changes**

The Government Accounting Standards Board has issued Statement No. 77, *Tax Abatement Disclosures*. Statement No. 77 requires new government disclosures about tax abatement agreements with entities and individuals including the purpose of the program, the tax being abated, the dollar amount and provisions for recapturing abated taxes as well as the types of commitments made by tax abatement recipients. It also requires disclosures about other commitments made by a government in tax abatement agreements, such as to build infrastructure assets. The new standard also requires disclosures about tax abatements that are entered into by other governments that reduce the reporting government's tax revenues. Statement No. 77 is effective for the year ended June 30, 2017 with earlier application encouraged.

## **Required Supplemental Information**

**Hillsdale Community Schools**  
 Budgetary Comparison Schedule - General Fund  
 Year Ended June 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual</u>
	<u>Original</u>	<u>Final</u>	
<b>Revenues:</b>			
Local sources	\$ 2,275,732	\$ 2,273,551	\$ 2,275,904
State sources	9,455,216	9,799,532	9,822,923
Federal sources	624,341	572,613	573,814
Interdistrict and other	29,351	130,847	130,835
Total revenues	<u>12,384,640</u>	<u>12,776,543</u>	<u>12,803,476</u>
<b>Expenditures:</b>			
Instruction:			
Basic programs	6,864,509	7,247,890	7,239,403
Added needs	1,332,028	1,327,771	1,314,627
Support services:			
Pupil	197,048	207,830	205,232
Instructional staff	110,959	201,767	197,422
General administration	235,363	245,033	241,968
School administration	778,455	822,106	817,702
Business	241,014	277,776	266,350
Operation & maintenance	1,228,773	1,249,660	1,224,869
Pupil transportation	704,157	855,295	837,114
Central services	148,462	142,593	137,593
Athletic activities	312,022	357,107	350,197
Community services:			
Community activities	7,500	9,997	8,788
Debt service:			
Principal	25,292	47,141	47,140
Interest and other charges	1,828	2,427	2,427
Capital outlay	-	-	-
Total expenditures	<u>12,187,410</u>	<u>12,994,393</u>	<u>12,890,832</u>
<b>Revenues Over (Under) Expenditures</b>	<u>197,230</u>	<u>(217,850)</u>	<u>(87,356)</u>
<b>Other Financing Sources (Uses):</b>			
Transfers out	-	-	(7,160)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(7,160)</u>
<b>Net Changes in Fund Balances</b>	197,230	(217,850)	(94,516)
<b>Fund Balances - Beginning of Year</b>	<u>493,735</u>	<u>493,735</u>	<u>493,735</u>
<b>Fund Balances - End of Year</b>	<u>\$ 690,965</u>	<u>\$ 275,885</u>	<u>\$ 399,219</u>

**Hillsdale Community Schools**  
Michigan Public School Employees' Retirement Plan  
Schedule of the Reporting Unit's Contributions  
Fiscal Year (Amounts Determined as of 6/30)

	<b>2015</b>
Statutorily required contributions	\$ 1,238,370
Contributions in relation to statutorily required contributions	1,238,370
Contribution deficiency (excess)	\$ -
Reporting unit's covered-employee payroll	\$ 6,746,650
Contributions as a percentage of covered-employee payroll	18.36%

**Hillsdale Community Schools**  
Michigan Public School Employees' Retirement Plan  
Schedule of the Reporting Unit's Proportionate Share of the Net Pension Liability  
Last Fiscal Year (Amounts Determined as of 9/30)

	<b>2014</b>
Reporting unit's proportion of net pension liability (%)	0.07974
Reporting unit's proportionate share of net pension liability	17,563,376
Reporting unit's covered-employee payroll	\$ 7,306,122
Reporting unit's proportionate share of net pension liability as a percentage of its covered-employee payroll	240.39%
Plan fiduciary net position as a percentage of total pension liability	66.20%

**Hillsdale Community Schools**  
Michigan Public School Employees' Retirement Plan  
Notes to Required Supplementary Information  
Year Ended June 30, 2015

**Changes of Benefit Terms:**            There were no changes of benefit terms in 2014.

**Changes of Assumptions:**            There were no changes of benefit assumptions in 2014.

# **Hillsdale Community Schools**

Single Audit Report

Year Ended June 30, 2015

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**Independent Auditors' 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***

Board of Education  
Hillsdale Community Schools  
Hillsdale, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hillsdale Community Schools as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Hillsdale Community Schools' basic financial statements, and have issued our report thereon dated October 22, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Hillsdale 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 Hillsdale Community Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of Hillsdale 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 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 might be material weaknesses. However, material weaknesses may exist that have not been identified.

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Board of Education  
Hillsdale Community Schools  
Hillsdale, Michigan

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Hillsdale Community Schools' financial statements are free of 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 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.

*Willis & Jurasek, P.C.*

Willis & Jurasek, P.C.

October 22, 2015



## **Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133**

Board of Education  
Hillsdale Community Schools  
Hillsdale, Michigan

### **Report on Compliance for Each Major Federal Program**

We have audited Hillsdale 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 Hillsdale Community Schools' major federal programs for the year ended June 30, 2015. Hillsdale Community Schools' major federal programs are identified in the summary of auditors' 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.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for each of Hillsdale 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 Hillsdale 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 Hillsdale Community Schools' compliance.

### **Opinion on Each Major Federal Program**

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

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## **Report on Internal Control Over Compliance**

Management of Hillsdale 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 Hillsdale 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 Hillsdale Community Schools' internal control over compliance.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

*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 a 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 combination of deficiencies, in internal control over compliance with a type of a 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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2015-001 to be a significant deficiency.

Hillsdale Community School's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Hillsdale Community Schools' response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

## **Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hillsdale Community Schools as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Hillsdale Community Schools' basic financial statements. We issued our report thereon dated October 22, 2015, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such 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. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records

used to prepare the basic financial statements or to the 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.

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.

*Willis & Jurasek, P.C.*

Willis & Jurasek, P.C.

October 22, 2015

**Hillsdale Community Schools**  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2015

<u>Federal Grantor/Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Grantor's Number</u>	<u>Award/Grant Entitlement Program Amount</u>	<u>Accrued (Deferred) Revenue 7/1/2014</u>	<u>Prior Years Expenditures (Memorandum Only)</u>	<u>Current Year Receipts</u>	<u>Current Year Expenditures</u>	<u>Accrued (Deferred) Revenue 6/30/2015</u>
<b><u>U.S. Department of Agriculture</u></b>								
Child Nutrition Cluster:								
Passed through MI Department of Education:								
Non-cash Assistance (Commodities):								
National School Lunch Program - Regular	10.555		\$ 42,457	\$ -	\$ -	\$ 42,457	\$ 42,457	\$ -
Cash Assistance:								
National School Lunch Program	10.555	141960	361,050	-	318,719	42,331	42,331	-
		151960	315,102	-	-	315,102	315,102	-
		151980	1,425	-	-	1,425	1,425	-
			<u>677,577</u>	<u>-</u>	<u>318,719</u>	<u>358,858</u>	<u>358,858</u>	<u>-</u>
School Breakfast Program	10.553	141970	117,248	-	104,545	12,703	12,703	-
		151970	104,588	-	-	104,588	104,588	-
			<u>221,836</u>	<u>-</u>	<u>104,545</u>	<u>117,291</u>	<u>117,291</u>	<u>-</u>
Summer Food Service Program	10.559	140900	3,171	-	-	3,171	3,171	-
		141900	331	-	-	331	331	-
			<u>3,502</u>	<u>-</u>	<u>-</u>	<u>3,502</u>	<u>3,502</u>	<u>-</u>
Total Cash Assistance			<u>902,915</u>	<u>-</u>	<u>423,264</u>	<u>479,651</u>	<u>479,651</u>	<u>-</u>
Total Child Nutrition Cluster			<u>945,372</u>	<u>-</u>	<u>423,264</u>	<u>522,108</u>	<u>522,108</u>	<u>-</u>
Total United States Department of Agriculture			<u>945,372</u>	<u>-</u>	<u>423,264</u>	<u>522,108</u>	<u>522,108</u>	<u>-</u>
<b><u>U.S. Department of Education:</u></b>								
Passed through MI Department of Education:								
Title I Part A	84.010	141530-1314	691,156	161,944	373,268	237,091	75,147	-
		151530-1415	556,772	-	-	193,359	367,137	173,778
			<u>1,247,928</u>	<u>161,944</u>	<u>373,268</u>	<u>430,450</u>	<u>442,284</u>	<u>173,778</u>
Title IIA	84.367	140520-1314	176,150	27,618	81,453	66,490	38,872	-
		150520-1415	164,425	-	-	47,406	68,518	21,112
			<u>340,575</u>	<u>27,618</u>	<u>81,453</u>	<u>113,896</u>	<u>107,390</u>	<u>21,112</u>
Title VI B	84.358	140660-1314	27,822	24,285	24,285	24,546	261	-
		150660-1415	28,977	-	-	-	23,879	23,879
			<u>56,799</u>	<u>24,285</u>	<u>24,285</u>	<u>24,546</u>	<u>24,140</u>	<u>23,879</u>
Total passed through MI Department of Education			<u>1,645,302</u>	<u>213,847</u>	<u>479,006</u>	<u>568,892</u>	<u>573,814</u>	<u>218,769</u>
Total United States Department of Education			<u>1,645,302</u>	<u>213,847</u>	<u>479,006</u>	<u>568,892</u>	<u>573,814</u>	<u>218,769</u>
			<u>\$ 2,590,674</u>	<u>\$ 213,847</u>	<u>\$ 902,270</u>	<u>\$ 1,091,000</u>	<u>\$ 1,095,922</u>	<u>\$ 218,769</u>

**Hillsdale Community Schools**  
Schedule of Reconciliation of Revenues with  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2015

	<b><u>Amount</u></b>
Revenue from Federal sources - per financial statements (includes all funds)	\$ <u>1,095,922</u>
Federal expenditures per the Schedule of Expenditures of Federal Awards	\$ <u>1,095,922</u>

**Hillsdale Community Schools**  
Notes to Schedule of Expenditures of Federal Awards

**Note 1 - Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Hillsdale Community Schools' federal government programs for the year ended June 30, 2015. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Hillsdale Community Schools, it is not intended to and does not present the financial position or changes in net position of Hillsdale Community Schools.

**Note 2 – Summary of Significant Accounting Policies**

The schedule reports expenditures on the 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.

**Note 3 – Grant Auditor's Report**

Management has utilized the Grant Auditor's Report in preparing the Schedule of Expenditures of Federal Awards.

**Hillsdale Community Schools**  
 Schedule of Findings and Questioned Costs  
 Year Ended June 30, 2015

**Section I – Summary of Auditors’ Results**

Financial Statements

Type of auditor’s report issued:	Unmodified		
Internal control over financial reporting:			
Material weakness identified	_____ yes	X	_____ no
Significant deficiencies identified that are not considered to be material weaknesses	_____ yes	X	_____ no
Noncompliance material to financial statements noted	_____ yes	X	_____ no

Federal Awards

Internal control over major programs:			
Material weakness identified	_____ yes	X	_____ no
Significant deficiencies identified that are not considered to be material weaknesses	X	_____ yes	_____ no

Type of auditor’s report issued on compliance for major programs:	Unmodified		
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133	_____ yes	X	_____ no

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
84.010	Title I
84.367	Title IIA

Dollar threshold used to distinguish between Type A and Type B programs:	_____ <u>\$ 300,000</u> _____
Auditee qualified as low-risk	_____ yes _____ X _____ no

**Section II – Financial Statement Findings**

None

**Hillsdale Community Schools**  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2015

**Section III – Federal Award Findings and Questioned Costs**

**2015-001 Internal Control over Timekeeping Requirements**

*Condition:* During the course of our testing, we noted a control deficiency over the completion of personnel activity reports and calculation of wages to be allocated to the Title I federal program based on those reports.

*Cause:* While PARs were maintained, they only included time to be charged to the federal grants and not all time as required by the federal standards. In addition to this, there is no review process in place to ensure accurate calculation of wage and benefit amounts being charged to the federal program.

*Effect:* The lack of control over this area could lead to incorrect wage and benefit amounts being charged to the federal program. We however, did not note material errors or questioned costs in this area.

*Auditor Recommendation:* The recording of time on PARs should be updated to include all time an employee is paid for, both hours for federally-funded programs and general programs. In addition to this, we recommend a review of the controls over the calculation and posting of time to the federal program to ensure accuracy in the calculation and compliance with allowable costs.

*View of Responsible Officials and Corrective Action Plan:* The internal controls have been reviewed and updated. PAR reporting procedures will be reviewed with the administrators and staff as follows: all PAR reports are expected to be completed thoroughly by the employees documenting all time worked and completing the calculation of time spent in federal grants. The administrator will review and approve the report, confirming that the hours documented are accurate and the calculations are correct. PAR reports will be submitted to the business office on a monthly basis. Upon review/verification by the business office, the payroll expenditures will be allocated to the grant.

**Hillsdale Community Schools**  
Comments on Resolution of Findings from June 30, 2014  
Single Audit Report

**Financial Statement Findings**

**2014-1 Financial Statement Preparation**

All Michigan School Districts are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is the responsibility of the School District's management. The preparation of the financial statements in accordance with GAAP requires internal control over both (1) recording, processing, and summarizing accounting data, and (2) reporting government-wide and fund financial statements, including the related footnotes.

*Condition:* The School District has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statement and footnotes as part of its external financial reporting process. Accordingly, the School District's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered part of the District's internal control.

*Cause:* The condition was caused by the School District's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the added time and expense of obtaining the necessary training for its business department to perform this task.

*Effect:* The result of this condition is that the School District lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

*View of Responsible Officials:* The School District will continue to evaluate the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP. In addition, the School District will carefully review the draft financial statements and notes prior to approving them and accept responsibility for content and presentation.

*Status:* The District's business official has obtained sufficient skills, knowledge, and experience to take responsibility for the preparation of the financial statements. This finding has been corrected for the current year.

**2014-2 Student Activity Fund Tracking and Reconciliation**

*Condition:* During our audit testing of the District's student activity funds, we found that the sum total of ending balances for each activity did not agree to the ending cash balance as of June 30, 2014. Furthermore, we noted that both the Davis Middle School Magazine and Miscellaneous student activity funds have large negative ending balances.

*Cause:* This condition was caused by the District neglecting to follow internal controls related to reconciling building activity fund summaries to the student activity bank account on a monthly basis. Additionally, it appears that no one is monitoring the individual fund balances to ensure that all have sufficient balances and that negative balances are properly investigated and corrected.

*Effect:* The result of this condition is that student activity cash at June 30, 2014 was not sufficient to cover the balances reflected in the building activity fund summaries at year-end, and the District has essentially borrowed from other activity funds to cover the negative balances carried in the Davis Middle School Magazine and Miscellaneous activity funds.

*View of Responsible Officials:* The internal controls have been reviewed by the School District's business office staff and procedures have been created to ensure proper internal controls and detective measures are in place and consistently implemented.

**Hillsdale Community Schools**  
Comments on Resolution of Findings from June 30, 2014  
Single Audit Report

**Financial Statement Findings (Continued)**

**2014-2 Student Activity Fund Tracking and Reconciliation (Continued)**

*Status:* The District has implemented their corrective action plan and this finding has been corrected for the current year.

**Federal Award Findings and Questioned Costs**

None



September 14, 2015

To the Board of Education  
Hillsdale Community Schools  
Hillsdale, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hillsdale Community Schools for the year ended June 30, 2015. Our report has not yet been issued, and is awaiting verification of pension plan information from the Office of Retirement Services (ORS) and the Attorney General. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in during our audit planning meeting. Professional standards also require that we communicate to you the following information related to our audit.

### Significant Audit Findings

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Hillsdale Community Schools are described in Note 1 to the financial statements. As described in Note 1 and Note 10 to the financial statements, Hillsdale Community Schools changed its accounting policies related to pension plans by adopting Statement of Governmental Accounting Standards (GASB Statement) No.68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* in the fiscal year ended June 30, 2015. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the Statement of Activities as well as Note 1. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Management has estimated the value of capitalized assets and the related accumulated depreciation. Depreciation is based upon estimated usage using estimated lives and methods to formulate net book value. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Management has estimated the liability for compensated absences based on current eligibility. We evaluated the key factors and assumptions used to develop this estimate in determining that it is reasonably in relation to the financial statements taken as a whole.

The financial statements contain estimates for net pension liability and related deferred inflows and deferred outflows of resources. This information has been provided by ORS to all school districts participating in the MPSERS pension system.

The financial statement disclosures are neutral, consistent, and clear.

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### *Difficulties Encountered in Performing the Audit*

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

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements of any significance. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

### *Disagreements with Management*

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

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated as per the auditors' report.

### *Management Consultations with Other Independent Accountants*

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

### *Other Audit Findings or Issues*

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

### Other Matters

We applied certain limited procedures to the Budgetary Comparison Schedules, the Schedule of Reporting Unit's Contributions, and the Schedule of Reporting Unit's Proportionate Share of the Net Pension Liability and related notes which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

### Recommendations

We recommend a review of your federal program policies and procedures to ensure they are being followed as required.

We recommend you prepare and implement procedures related to the tracking and monitoring of student lunch balances.

### Restriction on Use

This information is intended solely for the use of the Board of Education and management of Hillsdale Community Schools and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

*Willis & Jurasek, P.C.*

Willis & Jurasek, P.C.