

**HAMILTON COMMUNITY SCHOOLS**  
**REPORT ON FINANCIAL STATEMENTS**  
**(with required supplementary and**  
**additional supplementary information)**  
**YEAR ENDED JUNE 30, 2014**

## CONTENTS

	<u>Page</u>
<b>Independent auditor's report</b> .....	4 - 6
<b>Management's Discussion and Analysis</b> .....	7 - 14
<b>Basic financial statements</b> .....	15
Government-wide financial statements	
Statement of net position.....	16
Statement of activities.....	17
Fund financial statements	
Balance sheet - governmental funds .....	18 - 19
Statement of revenues, expenditures and changes in fund balances - governmental funds.....	20 - 21
Reconciliation of the statement of revenues, expenditures and changes in fund balances of governmental funds to the statement of activities.....	22
Fiduciary funds	
Statement of fiduciary net position .....	23
Statement of changes in fiduciary net position .....	24
Notes to financial statements.....	25 - 46
<b>Required supplementary information</b> .....	47
Budgetary comparison schedule - general fund.....	48

## CONTENTS

	<u>Page</u>
<b>Additional supplementary information</b> .....	49
Nonmajor governmental fund types	
Combining balance sheet .....	50
Combining statement of revenues, expenditures, and changes in fund balances .....	51
Debt service funds	
Combining balance sheet .....	52
Combining statement of revenues, expenditures and changes in fund balances .....	53
Long-term debt	
Bonded debt .....	54 - 56
Schedule of expenditures of federal awards .....	57 - 59
Notes to schedule of expenditures of federal awards .....	60
Report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i> .....	61 - 62
Report on compliance for each major federal program and on internal control over compliance required by OMB Circular A-133 .....	63 - 64
Schedule of findings and questioned costs .....	65
Schedule of prior year audit findings .....	66 - 67

## INDEPENDENT AUDITOR'S REPORT

To the Board of Education  
Hamilton Community Schools

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hamilton Community Schools, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### ***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 Hamilton Community Schools as of June 30, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

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

#### ***Other Information***

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

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2014 on our consideration of Hamilton 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 Hamilton Community Schools' internal control over financial reporting and compliance.

*Maney Costeiran PC*

October 8, 2014

# **Hamilton Community Schools**

## **Management's Discussion and Analysis**

### **For the Fiscal Year Ended June 30, 2014**

---

This section of the Hamilton Community Schools' ("District") annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended on June 30, 2014. Please read it in conjunction with the District's financial statements which immediately follow this section.

#### **District-Wide Financial Statements**

The first two statements are district-wide financial statements that provide short-term and long-term financial information about the District's overall financial status. These statements are required by generally accepted accounting principles (GAAP) as described in the Government Accounting Standards Board (GASB) Statement No. 34. The statements are compiled using the full accrual basis of accounting and more closely represent financial statements presented by business and industry. All of the District's assets, liabilities and deferred outflows of resources, both short- and long-term, are reported. As such, these statements include capital assets, net of related depreciation, as well as the bonded debt and other long-term obligations of the District resulting in total net position.

Over time, increases or decreases in the District's net position is one indicator of whether its financial position is improving or deteriorating. To assess the District's overall financial health, one should consider additional factors which may include the State's and/or region's economic condition, changes in the District's property tax base, and age and condition of its capital assets.

#### **Fund Financial Statements**

For the most part, the fund financial statements are comparable to financial statements for the previous fiscal year. The fund level statements are reported on a modified accrual basis in that only those assets that are deemed "measurable" and "currently available" are reported. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources.

The formats of the fund statements comply with requirements of the Michigan Department of Education's "Accounting Manual". In the state of Michigan, school districts' major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in various other funds categorized as Special Revenue, Debt Service, and Capital Projects Funds.

In addition to the governmental fund types mentioned above, the District is the trustee, or fiduciary, for assets that belong to others. The District is responsible for ensuring that the assets reported in these accounts are used only for their intended purposes by the groups to whom the assets belong. These monies are accounted for in the agency and private purpose trust funds, and the related financial activity is appropriately excluded from the district-wide financial statements as the assets do not belong to the District.

In the fund financial statements, capital assets purchased are considered expenditures in the year of acquisition with no asset being reported. The issuance of debt is treated as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. The obligations for future years' debt service are not recorded in the fund financial statements.

**Hamilton Community Schools  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2014**

---

**Summary of Net Position**

The following schedule summarizes the net position for the fiscal years ended June 30, 2014 and 2013:

<b>Hamilton Community Schools</b>		
	<u>2014</u>	<u>2013</u>
Current assets and other assets	\$ 9,809,061	\$ 12,385,765
Capital assets	<u>43,047,614</u>	<u>43,507,052</u>
Total assets	<u>52,856,675</u>	<u>55,892,817</u>
Deferred outflows of resources	<u>419,218</u>	<u>504,285</u>
Long-term liabilities outstanding	27,899,852	29,951,209
Other liabilities	<u>3,656,985</u>	<u>3,341,428</u>
Total liabilities	<u>31,556,837</u>	<u>33,292,637</u>
Net position:		
Net investment in capital assets	16,540,428	16,790,730
Restricted for debt service	1,016,889	989,420
Restricted for food service	56,083	48,349
Restricted for capital projects	38,350	38,350
Unrestricted	<u>4,067,306</u>	<u>5,237,616</u>
Total net position	<u>\$ 21,719,056</u>	<u>\$ 23,104,465</u>



# **Hamilton Community Schools**

## **Management's Discussion and Analysis**

### **For the Fiscal Year Ended June 30, 2014**

---

#### **Analysis of Net Position**

During the fiscal year ended June 30, 2014, the District's net position decreased by \$1,385,409. A few of the more significant factors affecting net position during the year are discussed below:

➤ **Cash Equivalents, Deposits and Investments**

At June 30, 2014, the District's cash equivalents, deposits and investments amounted to \$6,348,159 (including fiduciary funds). This represented a decrease of \$2,406,970 over the previous year, primarily as a result of spending occurring in the capital projects funds and the utilization of fund balance reserves.

➤ **Capital Outlay Acquisitions**

For the fiscal year ended June 30, 2014, \$1,382,084 of expenditures were capitalized and recorded as assets of the District. These additions to the District's capital assets will be depreciated over time as explained below.

The net effect of the new capital assets, assets disposed of during the fiscal year, and the current year's depreciation is a net decrease to capital assets in the amount of \$459,438 for the fiscal year ended June 30, 2014.

➤ **Depreciation Expense**

GASB 34 requires school districts to maintain records of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in the net position.

➤ **Bonded Debt**

For the fiscal year ended June 30, 2014, the District's bonded debt decreased by \$2,281,699 as a result of repayment of bonded debt issued in prior years.

➤ **Accumulated Compensated Absences and Termination Benefits**

At June 30, 2014, the District had an obligation to employees for the portion of earned compensated absences and termination benefits that they would be entitled to upon separation in the amount of \$744,177.

**Hamilton Community Schools  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2014**

**Results of Operations**

For the fiscal years ended June 30, 2014 and 2013, the results of operations, on a District-wide basis, were:

<b>Changes in Hamilton Community Schools' Net Position</b>				
	Fiscal year ended June 30,		Fiscal year ended June 30,	
	2014		2013	
	Amount	%	Amount	%
<b>Revenues:</b>				
Program revenues:				
Charges for services	\$ 492,545	1.74%	\$ 536,067	1.95%
Operating grants	4,901,775	17.37%	4,583,308	16.66%
General revenues:				
Property taxes	6,333,757	22.44%	6,542,900	23.78%
Investment	14,951	0.05%	51,325	0.19%
State aid - unrestricted	16,197,835	57.39%	15,520,396	56.42%
Other	285,529	1.01%	275,385	1.00%
Total revenues	<u>28,226,392</u>	100.00%	<u>27,509,381</u>	100.00%
<b>Expenses:</b>				
Instruction	15,959,405	53.90%	14,714,705	52.54%
Support services	9,374,918	31.66%	8,824,121	31.51%
Community services	195,053	0.66%	315,854	1.13%
Food services	823,965	2.78%	821,803	2.93%
Interest on long-term debt	1,420,938	4.80%	1,530,480	5.46%
Unallocated depreciation	1,837,522	6.21%	1,801,355	6.43%
Total expenses	<u>29,611,801</u>	100.00%	<u>28,008,318</u>	100.00%
Change in net position	<u>\$ (1,385,409)</u>		<u>\$ (498,937)</u>	

# **Hamilton Community Schools Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2014**

---

## **Analysis of Significant Revenues and Expenses**

Significant revenues and expenditures are discussed in the segments below:

➤ **Property Taxes**

The District levied 18.0 mills of property taxes for operations on non-principal residence exempt property for the 2013 tax year. According to Michigan law, the tax levy is based on the taxable valuation of properties. The annual taxable valuation increases are capped at the rate of increase in the prior year's Consumer Price Index or 5%, whichever is less. At the time that property is sold, its taxable valuation is readjusted to the State Equalized Value, which in theory is one half of the property's market value. At June 30, 2014, there were no significant unpaid property taxes.

➤ **State Sources**

The majority of the unrestricted state sources of revenues is comprised of the per student foundation allowance. The State of Michigan funds school districts based on a blended student enrollment which is calculated using 90% of the current year's fall count (October) and 10% of the current year's spring count (February). For the 2013-2014 fiscal year, the District received \$7,026 per student full time equivalent. The student foundation allowance amount increased by \$60 when compared to the 2012-2013 fiscal year.

➤ **Operating Grants**

The District receives a significant portion of its operating revenue from categorical grants. For the fiscal year ended June 30, 2014, federal, state, and other grants amounted to \$4,901,775. This represents a 6.95% increase over the \$4,583,308 received for the 2012-2013 fiscal year. The main reason for this increase was due to additional Act 18 funds received from Ottawa Intermediate School District.

# Hamilton Community Schools

## Management's Discussion and Analysis

### For the Fiscal Year Ended June 30, 2014

#### Comparative Expenditures

A comparison of the expenditures reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances is shown below:

Expenditures	2013 - 2014	2012 - 2013	Increase (decrease)
Instruction	\$ 15,810,951	\$ 14,752,307	\$ 1,058,644
Supporting services	8,666,099	8,454,940	211,159
Food service activities	822,529	821,803	726
Community service activities	195,053	315,854	(120,801)
Capital outlay	1,980,445	1,198,535	781,910
Debt service	3,654,447	3,747,144	(92,697)
Outgoing transfers and other	5,675	36,136	(30,461)
<b>Total expenditures</b>	<b>\$ 31,135,199</b>	<b>\$ 29,326,719</b>	<b>\$ 1,808,480</b>

#### General Fund Budgetary Highlights

The Uniform Budgeting Act of the State of Michigan requires that the local Board of Education approve the annual operating budget prior to the start of the fiscal year on July 1. Any amendments to the original budget must be approved by the Board prior to the close of the fiscal year on June 30, 2014.

The following schedule shows a comparison of the original general fund budget, the final amended budget, and actual totals from operations for the fiscal year ending June 30, 2014.

	Original budget	Final budget	Actual	Final variance with budget	% variance
<b>Total revenues</b>	<b>\$ 22,676,800</b>	<b>\$ 24,013,200</b>	<b>\$ 23,734,116</b>	<b>\$ (279,084)</b>	<b>(1.16%)</b>
<b>Expenditures:</b>					
Instruction	\$ 15,485,400	\$ 16,046,890	\$ 15,810,951	\$ 235,939	1.47%
Supporting services	8,316,200	8,730,990	8,666,099	64,891	0.74%
Community services	179,100	197,520	195,053	2,467	1.25%
Outgoing transfers and other	-	1,100	5,675	(4,575)	(415.91%)
Total expenditures	\$ 23,980,700	\$ 24,976,500	\$ 24,677,778	\$ 298,722	1.20%
<b>Other financing sources (uses)</b>	<b>\$ -</b>	<b>\$ 25,000</b>	<b>\$ 33,000</b>	<b>\$ 8,000</b>	<b>32.00%</b>

The original budget adopted by the Board in June 2013 was amended twice during the year. The amendments, approved in February and June 2014, reflected necessary changes to both revenues and expenditures based on projections made by the Chief Financial Officer.

# Hamilton Community Schools

## Management's Discussion and Analysis

### For the Fiscal Year Ended June 30, 2014

---

#### Capital Asset and Debt Administration

##### Capital Assets

By the end of the 2013-2014 fiscal year, the District had invested approximately \$64.7 million as the original cost in a broad range of capital assets, including land, school buildings and facilities, school buses and other vehicles, and various types of equipment. Depreciation expense for the year amounted to \$1,837,522, bringing the accumulated depreciation to roughly \$21.7 million as of June 30, 2014. This represents a net decrease of \$459,438 over the prior fiscal year.

<b>Hamilton Community Schools</b>				
	2014			2013
	Cost	Accumulated depreciation	Net book value	Net book value
Land	\$ 2,169,583	\$ -	\$ 2,169,583	\$ 1,255,880
Construction in progress	201,795	-	201,795	-
Buildings and improvements	56,435,315	17,380,185	39,055,130	40,497,318
Furniture and fixtures	2,599,198	2,200,967	398,231	491,486
Vehicles	3,114,876	2,025,685	1,089,191	1,120,329
Transportation equipment	208,879	75,195	133,684	142,039
<b>Total</b>	<b>\$ 64,729,646</b>	<b>\$ 21,682,032</b>	<b>\$ 43,047,614</b>	<b>\$ 43,507,052</b>

##### Long-term Debt

At June 30, 2014, the District had approximately \$27.9 million in long-term obligations which included \$27,155,675 in outstanding bonded debt. The bonded debt obligation was reduced during the year as \$2,281,699 of previously outstanding bonds were redeemed. In addition to the bonded debt, the District has obligation for compensated absences estimated at roughly \$744,000 at the end of the fiscal year.

# **Hamilton Community Schools Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2014**

---

## **Factors Bearing on the District's Future**

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

- The uncertainty of student foundation funding levels, as well as funding for other K-12 education programs, reflects the continued difficult economic decisions faced by the State of Michigan. Analysts are predicting a slow recovery to the situation.
- With relatively flat enrollment, lack of stability in the funding stream from the State, and rising costs in many areas including employee health insurance, retirement contribution costs, and utilities, District administration continues to be diligent in maintaining a reasonable level of reserves (fund balance). Measures to accomplish this include, but are not limited to, cooperative agreements with Ottawa Area Intermediate School District, as well as neighboring public schools, and strategic utilization of its fund balance.
- In September 2012, the Governor signed P.A. 300 of 2012 – MPSERS Reform into law. This bill is the first step by the lawmakers to reform the Michigan Public Schools Employee Retirement System (MPSERS) in order to make it affordable and sustainable into the future. This law requires current school employees to make choices regarding their pension and retiree healthcare which could impact the District's and employee's contributions. It also sets the stage for addressing the ever-growing unfunded liability that MPSERS is facing. It is expected that there will be additional legislative action to fully deal with the unfunded liability and that, to some degree, the cost of addressing the issue will fall upon system participants, school districts, and possibly the State's School Aid Fund.
- In 2010, Congress enacted the Patient Protection and Affordable Care Act (PPACA) in order to increase the number of Americans covered by health insurance and decrease the cost of health care. The law puts in place comprehensive health insurance reforms that will roll out over four years and beyond, with most changes taking place by 2014. The economic impact of healthcare cost increases continue to be a challenge for the District and its employees. District administration will continue working with its healthcare providers to implement provisions of the PPACA as they become required.

District administration will closely monitor this decision in order to determine the impact and will make any modifications to contract and/or practices as they may become necessary.

## **Contacting the District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report, or need additional information, please contact the Chief Financial Officer at Hamilton Community Schools, 4815 136th Ave., Hamilton, MI 49419-9604.

## **BASIC FINANCIAL STATEMENTS**

**HAMILTON COMMUNITY SCHOOLS  
STATEMENT OF NET POSITION  
JUNE 30, 2014**

	<u>Governmental activities</u>
<b>ASSETS</b>	
<b>CURRENT ASSETS:</b>	
Cash and cash equivalents	\$ 2,528,063
Investments	1,764,663
Receivables:	
Accounts receivable	15,117
Interest receivable	35,272
Intergovernmental	3,647,825
Due from student activities	175,014
Inventories	10,374
Prepays	684
Restricted investments - capital projects	1,632,049
Capital assets not being depreciated	2,371,378
Capital assets, net of accumulated depreciation	<u>40,676,236</u>
<b>TOTAL ASSETS</b>	<u><u>52,856,675</u></u>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>	
Deferred charge on refunding	<u>419,218</u>
<b>LIABILITIES:</b>	
Accounts payable	664,543
Due to student activities	51,860
Retainage payable	20,605
Accrued interest	223,031
Accrued salaries and related items	2,662,879
Unearned revenue	34,067
Noncurrent liabilities:	
Due within one year	2,385,367
Due in more than one year	<u>25,514,485</u>
<b>TOTAL LIABILITIES</b>	<u><u>31,556,837</u></u>
<b>NET POSITION:</b>	
Net investment in capital assets	16,540,428
Restricted for food service	56,083
Restricted for debt service	1,016,889
Restricted for capital projects	38,350
Unrestricted	<u>4,067,306</u>
<b>TOTAL NET POSITION</b>	<u><u>\$ 21,719,056</u></u>



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

<u>Functions/programs</u>	<u>Expenses</u>	<u>Program revenues</u>		<u>Governmental activities</u>
		<u>Charges for services</u>	<u>Operating grants</u>	<u>Net (expense) revenue and changes in net position</u>
Governmental activities:				
Instruction	\$ 15,959,405	\$ 54,492	\$ 3,358,822	\$ (12,546,091)
Support services	9,374,918	-	863,856	(8,511,062)
Community services	195,053	-	-	(195,053)
Food services	823,965	438,053	418,276	32,364
Interest on long-term debt	1,420,938	-	260,821	(1,160,117)
Unallocated depreciation	1,837,522	-	-	(1,837,522)
Total governmental activities	<u>\$ 29,611,801</u>	<u>\$ 492,545</u>	<u>\$ 4,901,775</u>	<u>(24,217,481)</u>
General revenues:				
Property taxes, levied for general purposes				2,965,384
Property taxes, levied for debt service				3,368,373
Investment earnings				14,951
State sources - unrestricted				16,197,835
Other				285,529
Total general revenues				<u>22,832,072</u>
<b>CHANGE IN NET POSITION</b>				(1,385,409)
<b>NET POSITION, beginning of year</b>				<u>23,104,465</u>
<b>NET POSITION, end of year</b>				<u>\$ 21,719,056</u>

**HAMILTON COMMUNITY SCHOOLS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2014**

	<b>General Fund</b>	<b>2010 Capital projects fund</b>	<b>Total nonmajor funds</b>	<b>Total governmental funds</b>
<b>ASSETS</b>				
<b>ASSETS:</b>				
Cash and cash equivalents	\$ 1,055,250	\$ -	\$ 1,472,813	\$ 2,528,063
Investments	1,764,663	-	-	1,764,663
Receivables:				
Accounts receivable	12,687	-	2,430	15,117
Interest receivable	35,272	-	-	35,272
Intergovernmental	3,640,818	-	7,007	3,647,825
Due from other funds	1,459,097	-	347,367	1,806,464
Due from student activities	175,014	-	-	175,014
Inventories	-	-	10,374	10,374
Prepays	684	-	-	684
Restricted investments	-	1,632,049	-	1,632,049
<b>TOTAL ASSETS</b>	<b>\$ 8,143,485</b>	<b>\$ 1,632,049</b>	<b>\$ 1,839,991</b>	<b>\$ 11,615,525</b>
<b>LIABILITIES:</b>				
Payables:				
Accounts payable	\$ 436,414	\$ 224,837	\$ 3,292	\$ 664,543
Retainage payable	-	20,605	-	20,605
Due to other funds	347,367	1,157,336	301,761	1,806,464
Due to student activities	51,860	-	-	51,860
Accrued salaries and related items	2,662,879	-	-	2,662,879
Unearned revenue	14,046	-	20,021	34,067
<b>TOTAL LIABILITIES</b>	<b>3,512,566</b>	<b>1,402,778</b>	<b>325,074</b>	<b>5,240,418</b>
<b>FUND BALANCES:</b>				
Nonspendable:				
Inventories	-	-	10,374	10,374
Prepays	684	-	-	684

See notes to financial statements.

	<u>General Fund</u>	<u>2010 Capital projects fund</u>	<u>Total nonmajor funds</u>	<u>Total governmental funds</u>
<b>FUND BALANCES:</b>				
Restricted for:				
Capital projects	\$ -	\$ 229,271	\$ 38,350	\$ 267,621
Food service	-	-	56,083	56,083
Debt service	-	-	1,239,920	1,239,920
Committed:				
Equipment and maintenance projects (EMP)	1,150,058	-	-	1,150,058
Capital projects	-	-	170,190	170,190
Assigned for:				
Subsequent year expenditures	534,730	-	-	534,730
Compensated absences	744,177	-	-	744,177
Unassigned:				
General fund	2,201,270	-	-	2,201,270
<b>TOTAL FUND BALANCES</b>	<u>4,630,919</u>	<u>229,271</u>	<u>1,514,917</u>	<u>6,375,107</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 8,143,485</u>	<u>\$ 1,632,049</u>	<u>\$ 1,839,991</u>	<u>\$ 11,615,525</u>
<b>Total governmental fund balances</b>				<u>\$ 6,375,107</u>
Amounts reported for governmental activities in the statement of net position are different because:				
Deferred charge on refunding, net of amortization				419,218
Capital assets used in governmental activities are not financial resources and are not reported in the funds				
The cost of the capital assets is			\$ 64,729,646	
Accumulated depreciation is			<u>(21,682,032)</u>	
				43,047,614
Long-term liabilities are not due and payable in the current period and are not reported in the funds:				
Bonds payable				(27,155,675)
Compensated absences				(744,177)
Accrued interest is not included as a liability in governmental funds, it is recorded when paid				<u>(223,031)</u>
<b>Net position of governmental activities</b>				<u>\$ 21,719,056</u>

See notes to financial statements.

**HAMILTON COMMUNITY SCHOOLS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2014**

	<u>General Fund</u>	<u>2010 Capital projects fund</u>	<u>Total nonmajor funds</u>	<u>Total governmental funds</u>
<b>REVENUES:</b>				
Local sources:				
Property taxes	\$ 2,965,384	\$ -	\$ 3,400,203	\$ 6,365,587
Tuition	54,492	-	-	54,492
Food sales	-	-	438,053	438,053
Investment earnings	16,198	(7,051)	5,804	14,951
Other	277,529	-	-	277,529
Total local sources	3,313,603	(7,051)	3,844,060	7,150,612
State sources	17,490,425	-	50,304	17,540,729
Federal sources	789,816	-	628,793	1,418,609
Intermediate school districts	2,140,272	-	-	2,140,272
Total revenues	23,734,116	(7,051)	4,523,157	28,250,222
<b>EXPENDITURES:</b>				
Current:				
Instruction	15,810,951	-	-	15,810,951
Supporting services	8,666,099	-	-	8,666,099
Food service activities	-	-	822,529	822,529
Community service activities	195,053	-	-	195,053
Outgoing transfers and other transactions	5,675	-	-	5,675

See notes to financial statements.

	<u>General Fund</u>	<u>2010 Capital projects fund</u>	<u>Total nonmajor funds</u>	<u>Total governmental funds</u>
<b>EXPENDITURES (Concluded):</b>				
Debt service:				
Principal repayment	\$ -	\$ -	\$ 2,215,000	\$ 2,215,000
Interest	-	-	1,437,484	1,437,484
Other	-	-	1,963	1,963
Capital outlay	-	1,980,445	-	1,980,445
Total expenditures	<u>24,677,778</u>	<u>1,980,445</u>	<u>4,476,976</u>	<u>31,135,199</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(943,662)</u>	<u>(1,987,496)</u>	<u>46,181</u>	<u>(2,884,977)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Proceeds from sale of capital assets	8,000			8,000
Transfers in	25,000	-	-	25,000
Transfers out	-	-	(25,000)	(25,000)
Total other financing sources (uses)	<u>33,000</u>	<u>-</u>	<u>(25,000)</u>	<u>8,000</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>(910,662)</u>	<u>(1,987,496)</u>	<u>21,181</u>	<u>(2,876,977)</u>
<b>FUND BALANCES:</b>				
Beginning of year	<u>5,541,581</u>	<u>2,216,767</u>	<u>1,493,736</u>	<u>9,252,084</u>
End of year	<u>\$ 4,630,919</u>	<u>\$ 229,271</u>	<u>\$ 1,514,917</u>	<u>\$ 6,375,107</u>

See notes to financial statements.

**HAMILTON COMMUNITY SCHOOLS  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2014**

**Net change in fund balances total governmental funds** \$ (2,876,977)

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	(1,837,522)
Capital outlay	1,382,084
Gain on disposal of capital assets	(4,000)

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

Accrued interest payable, beginning of the year	239,577
Accrued interest payable, end of the year	(223,031)

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

Payments on bonded debt	2,215,000
Amortization of deferred loss on refunding	(85,067)
Amortization of bond premium	66,699

Revenue is recorded on the accrual method in the statement of activities; in the governmental funds it is recorded on the modified accrual method and not considered available:

Unavailable revenue - property taxes, beginning of the year	(31,830)
Unavailable revenue - property taxes, end of the year	-

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

Accrued compensated absences, beginning of the year	513,835
Accrued compensated absences, end of the year	(744,177)

**Change in net position of governmental activities** \$ (1,385,409)

**HAMILTON COMMUNITY SCHOOLS  
STATEMENT OF FIDUCIARY NET POSITION  
JUNE 30, 2014**

	<b>Agency fund</b>	<b>Private Purpose Trust Fund</b>	<b>Totals</b>
<b>ASSETS:</b>			
Cash and cash equivalents	\$ 370,734	\$ 52,650	\$ 423,384
Due from primary government	51,860	-	51,860
	<u>422,594</u>	<u>52,650</u>	<u>475,244</u>
<b>LIABILITIES:</b>			
Accounts payable	6,415	-	6,415
Due to primary government	175,014	-	175,014
Due to student and other groups	241,165	-	241,165
	<u>422,594</u>	<u>-</u>	<u>422,594</u>
<b>NET POSITION:</b>			
Restricted for trust activities	<u>\$ -</u>	<u>\$ 52,650</u>	<u>\$ 52,650</u>

**HAMILTON COMMUNITY SCHOOLS  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
YEAR ENDED JUNE 30, 2014**

	<u>Private Purpose Trust Fund</u>
<b>ADDITIONS:</b>	
Interest earnings	\$ 1,042
<b>DEDUCTIONS:</b>	
Other	<u>12</u>
<b>CHANGE IN NET POSITION</b>	1,030
<b>NET POSITION:</b>	
Beginning of year	<u>51,620</u>
End of year	<u><u>\$ 52,650</u></u>



**HAMILTON COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of Government-wide Financial Statements**

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

**B. Reporting Entity**

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

**C. Basis of Presentation - Government-wide Financial Statements**

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

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

**D. Basis of Presentation - Fund Financial Statements**

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

**HAMILTON COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Basis of Presentation - Fund Financial Statements (Continued)**

The District reports the following major governmental funds:

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

The *2010 capital projects fund* accounts for the proceeds of certain bonds payable that are restricted to expenditure for capital outlays for voter-approved purposes.

The capital projects funds include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the District has complied with the applicable provisions of §1351a of the Revised School Code.

The following is a summary of the cumulative revenue and expenditures for the 2010 school bonds’ activity:

	<u>Capital projects</u>
Revenue and other financing sources	\$ 18,792,459
Expenditures	\$ 18,563,188

**Other non-major funds**

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

The *Capital projects fund* – the building and site and 1998 Durant funds account for financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

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

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

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

**HAMILTON COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

The *private purpose trust fund* is accounted for using the accrual method of accounting. Private purpose trust funds account for assets where both the principal and interest may be spent. These funds are not reported on the District financial statements.

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

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

**E. Measurement Focus and Basis of Accounting**

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

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

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

**HAMILTON COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. Measurement Focus and Basis of Accounting (Continued)**

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

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

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

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

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

**HAMILTON COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. Measurement Focus and Basis of Accounting (Concluded)**

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

**F. Budgetary Information**

Budgetary basis of accounting:

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund and special revenue funds. The capital projects fund is appropriated on a project-length basis. Other funds do not have appropriated budgets.

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances are commitments related to unperformed (executor) contracts for goods or services (i.e., purchase orders, contracts, and commitments). The District does not utilize encumbrance accounting.

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

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the general fund are noted in the required supplementary information section.
4. Transfers may be made for budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. The budget was amended during the year with supplemental appropriations, the last one approved prior to year end June 30, 2014. The District does not consider these amendments to be significant.

**HAMILTON COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

1. Cash and cash equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

2. Investments

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

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

3. Inventories and prepaids

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

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

**HAMILTON COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

4. Capital assets

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

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

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

	Years
Building and improvements	20 - 50
Furniture and equipment	5 - 10
Vehicles	5 - 10
Infrastructure	25

5. Deferred outflows/inflows of resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

**HAMILTON COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

5. Deferred outflows/inflows of resources (Concluded)

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has not items that qualify for reporting in this category.

6. Net position flow assumption

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

7. Fund balance flow assumptions

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

8. Fund balance policies

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



**HAMILTON COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

8. Fund balance policies (Concluded)

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

Equipment and Maintenance Projects (EMP) Committed Fund Balance

In 1992, Hamilton voters approved 1.00 mills of property tax for equipment and maintenance projects (EMP) for five years. In 1994, Proposal A included this revenue in the District's foundation grant. The Board of Education determines on annual basis whether to designate a portion of its State School Aid to continue these projects. A subcommittee of the Board of Education serves as an EMP Committee to discuss projects with members of the Administrative staff.

The EMP balance is reported as committed fund balance in the General Fund. The following information provides detail on EMP activity for the year ended June 30, 2014:

Fund Balance, July 1, 2013	\$ 1,220,455
Revenue designated for EMP	-
EMP expenditures	<u>(70,397)</u>
Fund Balance, June 30, 2014	<u><u>\$ 1,150,058</u></u>

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

**HAMILTON COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**H. Revenues and Expenditures/Expenses**

1. Program revenues

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

2. Property taxes

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

For the year ended June 30, 2014, the District levied the following amounts per \$1,000 of assessed valuation:

Fund	Mills
General fund:	
Non-Principal Residence Exemption (PRE)	18.00
Commercial Personal Property	6.00
Debt service fund:	
PRE, Non-PRE, Commercial Personal Property	4.56

3. Compensated absences

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

**HAMILTON COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)**

**H. Revenues and Expenditures/Expenses (Concluded)**

4. Long-term obligations

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

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

**NOTE 2 - DEPOSITS AND INVESTMENTS**

As of June 30, 2014, the District had the following investments:

<u>Investment Type</u>	<u>Fair value</u>	<u>Weighted average maturity (years)</u>	<u>Rating</u>	<u>%</u>
MILAF Cash Management - CLASS	\$ 960,574	0.0027	AAAm	28.28%
Federal Agency Notes	1,683,362	0.2840	AA+	49.56%
Government and Agency - Money Market	<u>752,776</u>	0.0027	AAA	<u>22.16%</u>
Total fair value	<u>\$ 3,396,712</u>			<u>100.0%</u>
Portfolio weighted average maturity		<u>0.1421</u>		

1 day maturity equals 0.0027, one year equals 1.00

**HAMILTON COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)**

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

**Credit risk.** State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2014, the District did not have investments in commercial paper and corporate bonds.

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

**Custodial credit risk - deposits.** In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2014, \$2,724,861 of the District's bank balance of \$3,170,873 was exposed to custodial credit risk because it was uninsured and uncollateralized. The carrying amount is \$2,951,447.

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

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

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

At June 30, 2014, the carrying amount is as follows:

Deposits - including fiduciary funds of \$423,384	\$ 2,951,447
Investments	<u>3,396,712</u>
	<u>\$ 6,348,159</u>

**HAMILTON COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 - DEPOSITS AND INVESTMENTS (Concluded)**

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

Fiduciary fund:		
Cash and cash equivalents		\$ 423,384
District wide:		
Current assets:		
Cash and cash equivalents		2,528,063
Investments		1,764,663
Restricted investments - capital projects		1,632,049
		<u>\$ 6,348,159</u>

**NOTE 3 - CAPITAL ASSETS**

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

	Balance July 1, 2013	Additions	Deletions/ reclassification	Balance June 30, 2014
Assets not being depreciated:				
Land	\$ 1,255,880	\$ 913,703	\$ -	\$ 2,169,583
Construction in progress	-	201,795	-	201,795
Subtotal	<u>1,255,880</u>	<u>1,115,498</u>	<u>-</u>	<u>2,371,378</u>
Other capital assets:				
Building and improvements	56,407,615	27,700	-	56,435,315
Furniture and equipment	2,570,864	44,334	16,000	2,599,198
Vehicles	3,025,802	194,552	105,478	3,114,876
Infrastructure	208,879	-	-	208,879
Subtotal	<u>62,213,160</u>	<u>266,586</u>	<u>121,478</u>	<u>62,358,268</u>
Accumulated depreciation:				
Building and improvements	15,910,297	1,469,888	-	17,380,185
Furniture and equipment	2,079,378	137,589	16,000	2,200,967
Vehicles	1,905,473	221,690	101,478	2,025,685
Infrastructure	66,840	8,355	-	75,195
Total accumulated depreciation	<u>19,961,988</u>	<u>1,837,522</u>	<u>117,478</u>	<u>21,682,032</u>
Net capital assets being depreciated	<u>42,251,172</u>	<u>(1,570,936)</u>	<u>4,000</u>	<u>40,676,236</u>
Net governmental capital assets	<u>\$ 43,507,052</u>	<u>\$ (455,438)</u>	<u>\$ 4,000</u>	<u>\$ 43,047,614</u>

**HAMILTON COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 - CAPITAL ASSETS (Concluded)**

Depreciation expense for the fiscal year ended June 30, 2014 amounted to \$1,837,522. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

**NOTE 4 - INTERGOVERNMENTAL RECEIVABLES**

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

	<u>Governmental funds</u>
Other governmental units:	
State aid	\$ 3,176,956
Federal revenue	228,272
ISD and other	<u>242,597</u>
	<u>\$ 3,647,825</u>

Amounts due from other intergovernmental units include amounts due from federal, state and local sources for various projects and programs.

No allowance for doubtful accounts is considered necessary.

**NOTE 5 - LONG-TERM DEBT**

The District issues general obligation bonds to provide funds for the acquisition, construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District.

**HAMILTON COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 5 - LONG-TERM DEBT (Continued)**

The following is a summary of governmental long-term obligations for the District for the year ended June 30, 2014:

	General obligation bonds	Compensated absences	Total
Balance July 1, 2013	\$ 29,437,374	\$ 513,835	\$ 29,951,209
Additions	-	230,342	230,342
Deletions	<u>(2,281,699)</u>	<u>-</u>	<u>(2,281,699)</u>
Balance June 30, 2014	27,155,675	744,177	27,899,852
Total due within one year	<u>2,230,000</u>	<u>155,367</u>	<u>2,385,367</u>
Total due in more than one year	<u>\$ 24,925,675</u>	<u>\$ 588,810</u>	<u>\$ 25,514,485</u>

Bonds payable at June 30, 2014 is comprised of the following issues:

2005 refunding bonds due in annual installments of \$1,490,000 to \$1,530,000 through May 1, 2018 with interest from 4.00% to 5.00%.	\$ 6,030,000
2008 refunding bonds, due in annual installments of \$1,560,000 to \$1,745,000 through May 1, 2022 with interest from 3.25% to 4.00%.	6,615,000
2010 building and site bonds, due in annual installments of \$700,000 to \$4,000,000 through May 1, 2030 with interest from 3.75% to 6.20%.	14,200,000
Plus: premium on bond refunding	<u>310,675</u>
Total bonded debt and other long-term obligations	27,155,675
Compensated absences	<u>744,177</u>
Total general long-term debt	<u>\$ 27,899,852</u>

In prior years, the District defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account, assets and liabilities for the defeased bonds are not included in the District's financial statements. At June 30, 2014, \$17,750,000 bonds outstanding are considered defeased.

**HAMILTON COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 5 - LONG-TERM DEBT (Concluded)**

The annual requirements to amortize debt outstanding as of June 30, 2014, including interest payments of \$9,336,058 are as follows:

Year ending June 30,	Principal	Interest	Total
2015	\$ 2,230,000	\$ 1,286,813	\$ 3,516,813
2016	2,245,000	1,189,632	3,434,632
2017	2,265,000	1,088,363	3,353,363
2018	2,290,000	976,050	3,266,050
2019	2,360,000	868,000	3,228,000
2020 - 2024	8,455,000	2,815,200	11,270,200
2025 - 2029	3,000,000	1,081,000	4,081,000
2030	4,000,000	31,000	4,031,000
	26,845,000	9,336,058	36,181,058
Premium on bond refunding	310,675	-	310,675
Compensated absences	744,177	-	744,177
	<u>\$ 27,899,852</u>	<u>\$ 9,336,058</u>	<u>\$ 37,235,910</u>

**NOTE 6 - INTERFUND RECEIVABLES AND PAYABLES**

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

Receivable fund		Payable fund	
General fund	\$ 1,459,097	General fund	\$ 347,367
2010 Capital project fund	38,342	2010 Capital project fund	1,157,336
Debt service	309,025	Special revenue	301,761
	<u>\$ 1,806,464</u>		<u>\$ 1,806,464</u>

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



## **HAMILTON COMMUNITY SCHOOLS NOTES TO FINANCIAL STATEMENTS**

### **NOTE 7 - DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS**

**Plan Description** - The District participates in the statewide Michigan Public School Employees' Retirement System (MPERS) which is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. The System's pension plan was established by the State to provide retirement, survivor, and disability benefits to public school employees. In addition, the System's health plan provides all retirees with the option of receiving health, dental and vision coverage under the Michigan Public School Employees' Retirement Act.

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

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

#### **Benefit Provisions - Pension**

##### ***Introduction***

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Retirement benefits for DB plan members are determined by final average compensation and years of service. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members. A DB member or Pension Plus hybrid plan member who leaves Michigan public school employment may request a refund of his or her member contributions to the retirement system account. A refund cancels a former member's rights to future benefits. However, returning members who previously received a refund of their contributions may reinstate their service through repayment of the refund upon satisfaction of certain requirements.

**HAMILTON COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

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

**Funding Policy**

*Member Contributions*

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

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

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

**HAMILTON COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

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

*Employer Contributions*

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

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

Fiscal Year Ending June 30,	Contributions to MPSERS
2014	\$ 4,018,285
2013	3,443,588
2012	3,074,280

Included in the amounts paid above, the District received \$688,320 and \$252,193 of section 147(c) State Aid for the sole purpose of making supplemental payments to MPSERS. The District has recorded this amount as state revenue and additional pension expenditures/expenses for the years ended June 30, 2014 and 2013.

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

**HAMILTON COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

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

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

		<b>Fiscal Year 2013</b>						
		Effective February 1, 2013						
<b>Public School Employee Pension Rates (FYE Sept. 30th)</b>		Basic MIP	Pension Plus	Pension Plus PHF - First worked after 9/3/12	Pension Plus to DC with PHF First worked after 9/3/12	Basic MIP DB to DC with DB Health	Basic MIP DB to DC with PHF	Basic MIP with PHF
<b>Grand Total</b>		<b>24.32%</b>	<b>24.13%</b>	<b>26.20%</b>	<b>25.96%</b>	<b>25.89%</b>	<b>26.96%</b>	<b>25.39%</b>

		<b>Fiscal Year 2013</b>			
		4 months ended 1/31/2013			
<b>Public School Employee Pension Rates (FYE Sept. 30th)</b>		First worked before 7/1/10	Pension Plus between 6/30/10 and 9/3/12	Pension Plus and First worked after 9/3/12	Elected DC and First worked after 9/3/12
<b>Total</b>		<b>25.36%</b>	<b>24.13%</b>	<b>23.20%</b>	<b>20.96%</b>

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

**HAMILTON COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

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

**Benefit Provisions - Other Postemployment**

***Introduction***

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

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

***Retiree Healthcare Reform of 2012***

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

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

**HAMILTON COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 8 - RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omission; injuries to employees and natural disasters. The District is a member of the West Michigan Risk Management Trust (Trust), a self-insurance program with 30 districts pooling together to insure property, liability and auto exposures. Premiums from members of the Trust are arrived at through standard underwriting procedures. The members of the Trust have contributed amounts sufficient to fund individual and aggregate losses up to \$250,000 and \$1,295,405, respectively, on an annual basis. Excess insurance has been purchased to cover claims exceeding those amounts. A \$1,000 per occurrence deductible for property losses is maintained to place the responsibility for small charges with the members of the Trust.

The District carries commercial insurance for all other risks of loss, including employee life, health and accident insurance. Settled claims resulting from these risks have not exceeded commercial coverage in any of the past three fiscal years.

**NOTE 9 - TRANSFERS**

The food service fund transferred \$25,000 to the general fund. The transfer from the food service fund was made to allocate indirect costs.

**NOTE 10 - CONTINGENT LIABILITIES**

Amounts received or receivable from grant agencies are subject to audit and adjustments by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

**NOTE 11 - UPCOMING ACCOUNTING PRONOUNCEMENT**

Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, was issued by the GASB in June 2012 and will be effective for the District's 2015 fiscal year. The Statement requires governments that participate in defined benefit pension plans to report in their statement of net position an actuarial calculation. The net pension liability is the difference between the total pension liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries. Statement 68 requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the cost-sharing plan. The Statement also will improve the comparability and consistency of how governments calculate the pension liabilities and expense. The District is in the process of evaluating the financial statement impact of this statement and believes the impact of this statement will be significant.

**REQUIRED SUPPLEMENTARY INFORMATION**

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

	<b>Original budget</b>	<b>Final budget</b>	<b>Actual</b>	<b>Variance with final budget</b>
<b>REVENUES:</b>				
Local sources	\$ 3,166,500	\$ 3,471,500	\$ 3,313,603	\$ (157,897)
State sources	16,730,300	17,715,140	17,490,425	(224,715)
Federal sources	764,000	838,660	789,816	(48,844)
Intermediate school districts	2,016,000	1,987,900	2,140,272	152,372
Total revenues	<u>22,676,800</u>	<u>24,013,200</u>	<u>23,734,116</u>	<u>(279,084)</u>
<b>EXPENDITURES:</b>				
Current:				
Instruction:				
Basic programs	12,872,000	13,195,280	13,025,849	169,431
Added needs	2,613,400	2,851,610	2,785,102	66,508
Total instruction	<u>15,485,400</u>	<u>16,046,890</u>	<u>15,810,951</u>	<u>235,939</u>
Supporting services:				
Pupil	1,117,700	1,204,230	1,257,416	(53,186)
Instructional staff	625,500	656,090	749,150	(93,060)
General administration	300,200	313,540	321,662	(8,122)
School administration	1,503,400	1,528,070	1,499,416	28,654
Business	440,600	414,260	374,299	39,961
Operation/maintenance	2,131,600	2,368,540	2,340,379	28,161
Pupil transportation	1,304,600	1,344,580	1,308,671	35,909
Central	197,900	197,390	211,907	(14,517)
Athletics	694,700	704,290	603,199	101,091
Total supporting services	<u>8,316,200</u>	<u>8,730,990</u>	<u>8,666,099</u>	<u>64,891</u>
Community services	179,100	197,520	195,053	2,467
Outgoing transfers and other transactions	-	1,100	5,675	(4,575)
Total expenditures	<u>23,980,700</u>	<u>24,976,500</u>	<u>24,677,778</u>	<u>298,722</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(1,303,900)</u>	<u>(963,300)</u>	<u>(943,662)</u>	<u>19,638</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Proceeds from sale of capital assets	-	-	8,000	8,000
Transfers in	-	25,000	25,000	-
Total other financing sources (uses)	<u>-</u>	<u>25,000</u>	<u>33,000</u>	<u>8,000</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ (1,303,900)</u>	<u>\$ (938,300)</u>	<u>(910,662)</u>	<u>\$ 27,638</u>
<b>FUND BALANCE:</b>				
Beginning of year			<u>5,541,581</u>	
End of year			<u>\$ 4,630,919</u>	



**ADDITIONAL SUPPLEMENTARY INFORMATION**

**HAMILTON COMMUNITY SCHOOLS  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUND TYPES  
JUNE 30, 2014**

	Special revenue fund	Capital project funds		Debt service funds	Total nonmajor funds
	Food Service	Building and Site	1998 Durant		
<b>ASSETS</b>					
<b>ASSETS:</b>					
Cash and cash equivalents	\$ 371,720	\$ 170,190	\$ 8	\$ 930,895	\$ 1,472,813
Receivables:					
Accounts receivable	2,430	-	-	-	2,430
Intergovernmental	7,007	-	-	-	7,007
Due from other funds	-	-	38,342	309,025	347,367
Inventories	10,374	-	-	-	10,374
<b>TOTAL ASSETS</b>	<b>\$ 391,531</b>	<b>\$ 170,190</b>	<b>\$ 38,350</b>	<b>\$ 1,239,920</b>	<b>\$ 1,839,991</b>
<b>LIABILITIES:</b>					
Payables:					
Accounts payable	\$ 3,292	\$ -	\$ -	\$ -	\$ 3,292
Due to other funds	301,761	-	-	-	301,761
Unearned revenue	20,021	-	-	-	20,021
<b>TOTAL LIABILITIES</b>	<b>325,074</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>325,074</b>
<b>FUND BALANCES:</b>					
Nonspendable for inventories	10,374	-	-	-	10,374
Restricted for:					
Debt service	-	-	-	1,239,920	1,239,920
Food service	56,083	-	-	-	56,083
Capital projects	-	-	38,350	-	38,350
Committed for capital projects	-	170,190	-	-	170,190
<b>TOTAL FUND BALANCES</b>	<b>66,457</b>	<b>170,190</b>	<b>38,350</b>	<b>1,239,920</b>	<b>1,514,917</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 391,531</b>	<b>\$ 170,190</b>	<b>\$ 38,350</b>	<b>\$ 1,239,920</b>	<b>\$ 1,839,991</b>

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

	<u>Special revenue fund</u>	<u>Capital project funds</u>		<u>Debt service funds</u>	<u>Total nonmajor funds</u>
	<u>Food Service</u>	<u>Building and Site</u>	<u>1998 Durant</u>		
<b>REVENUES:</b>					
Local sources:					
Property taxes	\$ -	\$ -	\$ -	\$ 3,400,203	\$ 3,400,203
Food sales	438,053	-	-	-	438,053
Investment earnings	1,203	255	-	4,346	5,804
State sources	50,304	-	-	-	50,304
Federal sources	367,972	-	-	260,821	628,793
Total revenues	<u>857,532</u>	<u>255</u>	<u>-</u>	<u>3,665,370</u>	<u>4,523,157</u>
<b>EXPENDITURES:</b>					
Current:					
Special revenue activities:					
Salaries	261,069	-	-	-	261,069
Benefits	107,346	-	-	-	107,346
Supplies and materials	438,332	-	-	-	438,332
Other expenses	15,782	-	-	-	15,782
Debt service:					
Principal repayment	-	-	-	2,215,000	2,215,000
Interest	-	-	-	1,437,484	1,437,484
Other expenses	-	-	-	1,963	1,963
Total expenditures	<u>822,529</u>	<u>-</u>	<u>-</u>	<u>3,654,447</u>	<u>4,476,976</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>35,003</u>	<u>255</u>	<u>-</u>	<u>10,923</u>	<u>46,181</u>
<b>OTHER FINANCING SOURCES (USES):</b>					
Transfers out	(25,000)	-	-	-	(25,000)
Total other financing sources (uses)	<u>(25,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(25,000)</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>10,003</u>	<u>255</u>	<u>-</u>	<u>10,923</u>	<u>21,181</u>
<b>FUND BALANCES:</b>					
Beginning of year	<u>56,454</u>	<u>169,935</u>	<u>38,350</u>	<u>1,228,997</u>	<u>1,493,736</u>
End of year	<u>\$ 66,457</u>	<u>\$ 170,190</u>	<u>\$ 38,350</u>	<u>\$ 1,239,920</u>	<u>\$ 1,514,917</u>

**HAMILTON COMMUNITY SCHOOLS  
DEBT SERVICE FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2014**

	<u>2005</u>	<u>2008</u>	<u>2010</u>	<u>Totals</u>
<b>ASSETS</b>	<b>Refunding</b>	<b>Refunding</b>	<b>Building &amp; Site</b>	<b>Totals</b>
<b>ASSETS:</b>				
Cash and cash equivalents	\$ -	\$ 177,878	\$ 753,017	\$ 930,895
Due from other funds	211,945	15,620	81,460	309,025
<b>TOTAL ASSETS</b>	<u>\$ 211,945</u>	<u>\$ 193,498</u>	<u>\$ 834,477</u>	<u>\$ 1,239,920</u>
<b>FUND BALANCES:</b>				
Restricted for debt service	<u>\$ 211,945</u>	<u>\$ 193,498</u>	<u>\$ 834,477</u>	<u>\$ 1,239,920</u>

**HAMILTON COMMUNITY SCHOOLS  
DEBT SERVICE FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
YEAR ENDED JUNE 30, 2014**

	<b>2005 Refunding</b>	<b>2008 Refunding</b>	<b>2009 Refunding Series A</b>	<b>Totals</b>
<b>REVENUES:</b>				
Property taxes	\$ 1,840,300	\$ 255,919	\$ 1,303,984	\$ 3,400,203
Investment earnings	1,760	248	2,338	4,346
Federal sources	-	-	260,821	260,821
Total revenues	<u>1,842,060</u>	<u>256,167</u>	<u>1,567,143</u>	<u>3,665,370</u>
<b>EXPENDITURES:</b>				
Principal repayment	1,540,000	-	675,000	2,215,000
Interest	363,296	264,600	809,588	1,437,484
Other expenses	614	254	1,095	1,963
Total expenditures	<u>1,903,910</u>	<u>264,854</u>	<u>1,485,683</u>	<u>3,654,447</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(61,850)</u>	<u>(8,687)</u>	<u>81,460</u>	<u>10,923</u>
<b>FUND BALANCES:</b>				
Beginning of year	<u>273,795</u>	<u>202,185</u>	<u>753,017</u>	<u>1,228,997</u>
End of year	<u>\$ 211,945</u>	<u>\$ 193,498</u>	<u>\$ 834,477</u>	<u>\$ 1,239,920</u>

**HAMILTON COMMUNITY SCHOOLS  
LONG TERM DEBT  
BONDED DEBT - PRINCIPAL AND INTEREST REQUIREMENTS  
JUNE 30, 2014**

2005 Refunding Bonds

Calendar year year	Interest rate	Principal due May 1,	Interest due		Total due annually
			May 1	November 1	
2015	5.00%	\$ 1,530,000	\$ 143,150	\$ 104,900	\$ 1,778,050
2016	4.00%	1,520,000	104,900	74,500	1,699,400
2017	5.00%	1,490,000	74,500	37,250	1,601,750
2018	5.00%	1,490,000	37,250	-	1,527,250
Total 2005 bonded debt		<u>\$ 6,030,000</u>	<u>\$ 359,800</u>	<u>\$ 216,650</u>	<u>\$ 6,606,450</u>

The above bonds dated March 30, 2005 were issued for the purpose of refunding that portion of the District's outstanding 1998 School Building & Site Bonds, dated November 1, 1998, which were due and payable on May 1, 2010 (\$1,475,000 only), May 1, 2011 (\$1,605,000 only), May 1, 2012 through May 1, 2018 and to pay the costs of issuing the bonds. The amount of the original bond issue was \$14,245,000.

**HAMILTON COMMUNITY SCHOOLS  
LONG TERM DEBT  
BONDED DEBT - PRINCIPAL AND INTEREST REQUIREMENTS  
JUNE 30, 2014**

2008 Refunding Bonds

Calendar year year	Interest rate	Principal due May 1,	Interest due		Total due annually
			May 1	November 1	
2015	3.25%	\$ -	\$ 132,300	\$ 132,300	\$ 264,600
2016	3.25%	-	132,300	132,300	264,600
2017	3.25%	-	132,300	132,300	264,600
2018	3.25%	-	132,300	132,300	264,600
2019	4.00%	1,560,000	132,300	101,100	1,793,400
2020	4.00%	1,625,000	101,100	68,600	1,794,700
2021	4.00%	1,685,000	68,600	34,900	1,788,500
2022	4.00%	1,745,000	34,900	-	1,779,900
Total 2008 bonded debt		<u>\$ 6,615,000</u>	<u>\$ 866,100</u>	<u>\$ 733,800</u>	<u>\$ 8,214,900</u>

The above bonds dated March 27, 2008 were issued for the purpose of refunding that portion of the District's outstanding 1998 School Building & Site Bonds, dated November 1, 1998, which were due and payable on May 1, 2010 (\$645,000 only), May 1, 2011 (\$630,000 only), May 1, 2019 through May 1, 2024 and to pay the costs of issuing the bonds. The amount of the original bond issue was \$8,985,000.

**HAMILTON COMMUNITY SCHOOLS  
LONG TERM DEBT  
BONDED DEBT - PRINCIPAL AND INTEREST REQUIREMENTS  
JUNE 30, 2014**

2010 Building and Site Bonds

Calendar year year	Interest rate	Principal due May 1,	Interest due		Total due annually
			May 1	November 1	
2015	3.75%	\$ 700,000	\$ 393,644	\$ 380,519	\$ 1,474,163
2016	4.25%	725,000	380,519	365,113	1,470,632
2017	4.70%	775,000	365,113	346,900	1,487,013
2018	4.90%	800,000	346,900	327,300	1,474,200
2019	5.00%	800,000	327,300	307,300	1,434,600
2020	5.20%	800,000	307,300	286,500	1,393,800
2021	5.40%	800,000	286,500	264,900	1,351,400
2022	5.60%	800,000	264,900	242,500	1,307,400
2023	5.70%	1,000,000	242,500	214,000	1,456,500
2024	(t1) 6.00%	-	214,000	184,000	398,000
2025	(t1) 6.00%	-	184,000	154,000	338,000
2026	(t1) 6.00%	3,000,000	154,000	124,000	3,278,000
2027	(t2) 6.20%	-	124,000	93,000	217,000
2028	(t2) 6.20%	-	93,000	62,000	155,000
2029	(t2) 6.20%	-	62,000	31,000	93,000
2030	(t2) 6.20%	4,000,000	31,000	-	4,031,000
Total 2010 bonded debt		<u>\$ 14,200,000</u>	<u>\$ 3,776,676</u>	<u>\$ 3,383,032</u>	<u>\$ 21,359,708</u>

The above bonds dated January 27, 2010 were issued for the purpose of acquiring, furnishing and equipping additions to and partially remodeling, refurbishing and equipping school district building; acquiring and installing education technology improvements and energy conservation improvements; purchasing school buses and acquiring, developing and improving playgrounds, athletic fields, facilities and sites; and to pay the costs of issuing the bonds. The amount of the original bond issue was \$18,490,000.

Note: (t1) and (t2) are term bonds for 3 and 4 years, respectively. Term bonds are issued as equal denominations at an equivalent interest rate for the years in the term.



**HAMILTON COMMUNITY SCHOOLS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2014**

Federal grantor/pass-through grantor/ program title	Federal CFDA number	Pass- through grantor's number	Approved grant award amount	Accrued revenue July 1, 2013	(Memo only) Prior year expenditures	Current year expenditures	Current year cash receipts	Accrued revenue June 30, 2014
<u>U.S. Department of Agriculture:</u>								
Passed through Michigan Department of Education:								
Child Nutrition Cluster:								
Non-cash assistance (donated foods):								
National School Program - Non-bonus	10.555		\$ 53,275	\$ -	\$ -	\$ 53,275	\$ 53,275	\$ -
			53,275	-	-	53,275	53,275	-
National School Lunch Program - Breakfast	10.553	141970	37,495	-	-	37,495	37,495	-
National School Lunch Program - Breakfast		131970	4,483	-	-	4,483	4,483	-
			41,978	-	-	41,978	41,978	-
Cash assistance								
National School Lunch Program - Section 11	10.555	141960	238,575	-	-	238,575	238,575	-
National School Lunch Program - Section 11		131960	34,144	-	-	34,144	34,144	-
			272,719	-	-	272,719	272,719	-
Total Child Nutrition Cluster			367,972	-	-	367,972	367,972	-
Total U.S. Department of Agriculture			367,972	-	-	367,972	367,972	-

The accompanying notes are an integral part of this schedule.

**HAMILTON COMMUNITY SCHOOLS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2014**

Federal grantor/pass-through grantor/ program title	Federal CFDA number	Pass- through grantor's number	Approved grant award amount	Accrued revenue July 1, 2013	(Memo only) Prior year expenditures	Current year expenditures	Current year cash receipts	Accrued revenue June 30, 2014
<b>U.S. Department of Education:</b>								
Passed through Michigan Department of Education:								
Title I Cluster:								
E.C.I.A. Title I	84.010	141530-1314	\$ 212,515	\$ -	\$ -	\$ 201,724	\$ 190,000	\$ 11,724
E.C.I.A. Title I	84.010	131530-1213	228,646	26,795	191,074	-	26,795	-
E.C.I.A. Title I	84.010	141530-1112	219,436	-	-	(81)	(81)	-
Total Title I Cluster			660,597	26,795	191,074	201,643	216,714	11,724
Title IIA, Improving Teacher Quality	84.367	140520-1314	108,978	-	-	68,967	55,000	13,967
Title IIA, Improving Teacher Quality	84.367	130520-1213	97,970	39,548	39,548	-	39,548	-
			206,948	39,548	39,548	68,967	94,548	13,967
Total passed through Michigan Department of Education			867,545	66,343	230,622	270,610	311,262	25,691
Passed through Ottawa Area Intermediate School District:								
Special Education Cluster:								
IDEA	84.027	140450-1314	497,273	-	-	497,273	301,868	195,405
IDEA	84.027	130450-1213	548,597	212,385	548,597	-	212,385	-
			1,045,870	212,385	548,597	497,273	514,253	195,405
Pre School Incentive	84.173	140460-1314	15,822	-	-	15,822	10,847	4,975
Pre School Incentive	84.173	130460-1213	17,001	8,180	17,001	-	8,180	-
			32,823	8,180	17,001	15,822	19,027	4,975
Total Special Education Cluster:			1,078,693	220,565	565,598	513,095	533,280	200,380
McKinney-Vento Homeless	84.196	142320-1314	1,870	-	-	-	-	-
	84.196	132320-1213	1,800	-	-	288	288	-
			3,670	-	-	288	288	-
Total passed through Ottawa Area Intermediate School District			1,082,363	220,565	565,598	513,383	533,568	200,380

The accompanying notes are an integral part of this schedule.

**HAMILTON COMMUNITY SCHOOLS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2014**

Federal grantor/pass-through grantor/ program title	Federal CFDA number	Pass- through grantor's number	Approved grant award amount	Accrued revenue July 1, 2013	(Memo only) Prior year expenditures	Current year expenditures	Current year cash receipts	Accrued revenue June 30, 2014
<u>U.S. Department of Education:</u>								
Passed through Zeeland Public Schools:								
English Language Acquisition	84.365		\$ 3,460	\$ 3,460	\$ 3,460	\$ -	\$ 3,460	\$ -
English Language Acquisition	84.365		2,201	-	-	2,201	-	2,201
			5,661	3,460	3,460	2,201	3,460	2,201
Total U.S. Department of Education			1,955,569	290,368	799,680	786,194	848,290	228,272
<u>U.S. Department of Health and Human Services:</u>								
Passed through Michigan Department of Community Health								
Passed through Ottawa Area Intermediate School District: Medicaid - Administrative Outreach Claiming		93.778	3,622	-	-	3,622	3,622	-
<b>TOTAL FEDERAL AWARDS</b>			<b>\$ 2,327,163</b>	<b>\$ 290,368</b>	<b>\$ 799,680</b>	<b>\$ 1,157,788</b>	<b>\$ 1,219,884</b>	<b>\$ 228,272</b>

The accompanying notes are an integral part of this schedule.

**HAMILTON COMMUNITY SCHOOLS  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2014**

1. Basis of Presentation - The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Hamilton Community Schools under programs of the federal government for the year ended June 30, 2013. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Hamilton Community Schools, it is not intended to and does not present the net position or changes in net position of Hamilton Community Schools.
2. Summary of Significant Accounting Policies - Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for States, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts (if any) shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.
3. National School Lunch cluster (CFDA #10.553 and #10.555), and the Special Education cluster (CFDA #84.027 and #84.173) were audited as the major programs, representing 76% of expenditures.
4. The threshold for distinguishing Type A and Type B programs was \$300,000.
5. Management has utilized the Cash Management System (CMS) Grant Audit Report in preparing the Schedule of Expenditures of Federal Awards.
6. Federal expenditures are reported as revenue in the following funds in the financial statements:

General fund	\$ 789,816
Other nonmajor governmental funds	628,793
	1,418,609
Total per financial statements	1,418,609
Less: Federal subsidy for Build America Bonds, not subject to audit in accordance with OMB Circular A-133	(260,821)
	\$ 1,157,788

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

**INDEPENDENT AUDITOR'S REPORT**

To the Board of Education  
Hamilton Community Schools

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hamilton Community Schools as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Hamilton Community Schools basic financial statements and have issued our report thereon dated October 8, 2014.

**Internal Control Over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

*Maney Costeiran PC*

October 8, 2014

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

**INDEPENDENT AUDITOR'S REPORT**

To the Board of Education  
Hamilton Community Schools

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

We have audited Hamilton 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 Hamilton Community Schools' major federal programs for the year ended June 30, 2014. Hamilton Community Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

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

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

In our opinion, Hamilton Community Schools complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

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

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

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

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

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

*Maney Costeiran PC*

October 8, 2014



**HAMILTON COMMUNITY SCHOOLS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2014**

**Section I - Summary of Auditor's Results**

---

***Financial Statements***

Type of auditor's report issued: *Unmodified*

Internal control over financial reporting:

➤ Material weakness(es) identified? \_\_\_\_\_ Yes   X   No

➤ Significant deficiency(ies) identified? \_\_\_\_\_ Yes   X   No

Noncompliance material to financial statements noted? \_\_\_\_\_ Yes   X   No

***Federal Awards***

Internal control over major programs:

➤ Material weakness(es) identified? \_\_\_\_\_ Yes   X   No

➤ Significant deficiency(ies) identified? \_\_\_\_\_ Yes   X   No

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

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

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.553 & 10.555	National School Lunch Cluster
84.027 & 84.173	Special Education Cluster

Dollar threshold used to distinguish between Type A and Type \$300,000

Auditee qualified as low-risk auditee? \_\_\_\_\_ Yes   X   No

**Section II - Financial Statement Findings**

---

None noted

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

---

None noted

**HAMILTON COMMUNITY SCHOOLS  
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
YEAR ENDED JUNE 30, 2014**

**Finding 2013-001**

Considered a significant deficiency

**Criteria:** Hamilton Community Schools should complete monthly bank reconciliations in a timely manner.

**Condition:** The District completed bank reconciliations; however the reconciliations were not completed in a timely manner.

**Context:** The District's staff is working to improve the process of preparing monthly reconciliations.

**Questioned Costs:** \$0

**Cause:** The District's experienced turnover in the business office and the transition delayed the preparation of the monthly bank reconciliations.

**Effect:** Bank reconciliations were not completed timely.

**Recommendation:** We recommend Hamilton Community Schools establish improved controls for preparing and reviewing bank reconciliations. The District should ensure that reconciliations are completed in a timely manner on a monthly basis.

**Status:** The District improved the process for bank reconciliation preparation and was in compliance for the year ended June 30, 2014.

**HAMILTON COMMUNITY SCHOOLS  
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
YEAR ENDED JUNE 30, 2014**

**Finding 2013-002**

Considered a significant deficiency

**Criteria:** Hamilton Community Schools should reconcile significant balance sheet accounts on a monthly basis.

**Condition:** The District recorded numerous adjusting journal entries to balance sheet accounts after year-end.

**Context:** Failure to make significant adjustments increases the risk that the financial statements will be materially misstated.

**Questioned Costs:** \$0

**Cause:** The District's experienced turnover in the business office and the transition delayed the preparation of the monthly account reconciliations.

**Effect:** Inaccurate financial information may be used for management decisions and reporting.

**Status:** The District improved the year-end closing process for the year ended June 30, 2014.