

HAMILTON COMMUNITY SCHOOLS
REPORT ON FINANCIAL STATEMENTS
(with required supplementary and
additional supplementary information)
YEAR ENDED JUNE 30, 2015

CONTENTS

	<u>Page</u>
Independent auditor's report	4 - 6
Management's Discussion and Analysis	7 - 14
Basic financial statements	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 - 49
Required supplementary information	50
Budgetary comparison schedule - general fund.....	51
Schedule of the reporting unit's proportionate share of the net pension liability.....	52
Schedule of the reporting unit's contributions	53
Notes to required supplementary information.....	54

CONTENTS

	<u>Page</u>
Additional supplementary information	55
Nonmajor governmental fund types	
Combining balance sheet	56
Combining statement of revenues, expenditures, and changes in fund balances	57
Debt service funds	
Combining balance sheet	58
Combining statement of revenues, expenditures and changes in fund balances	59
Long-term debt	
Bonded debt	60 - 61
Schedule of expenditures of federal awards	62 - 64
Notes to schedule of expenditures of federal awards	65
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>	66 - 67
Report on compliance for each major federal program and on internal control over compliance required by OMB Circular A-133	68 - 70
Schedule of findings and questioned costs	70-72
Corrective action plan	73
Schedule of prior year audit findings	74

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, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, 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, 2015, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principle

As discussed in Note 11 to the financial statements, Hamilton Community Schools implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*, and Governmental Accounting Standards Board Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise 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. The additional supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the additional supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2015 on our consideration of 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.

Manes Costeiran PC

October 26, 2015

Hamilton Community Schools Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2015

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, 2015. Please read it in conjunction with the District's financial statements which immediately follow this section.

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

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

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

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, deferred inflows of resources, 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.

Hamilton Community Schools

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2015

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.

Summary of Net Position

The District's combined net position at the beginning of the fiscal year, as restated because of GASB Statements 68 and 71 implementation.

Hamilton Community Schools		
	2015	2014
Current assets and other assets	\$ 8,568,193	\$ 9,809,061
Capital assets	41,392,037	43,047,614
Total assets	<u>49,960,230</u>	<u>52,856,675</u>
Deferred outflows of resources	4,524,202	419,218
Long-term liabilities outstanding	25,150,561	27,899,852
Net pension liability	34,494,548	-
Other liabilities	3,464,746	3,656,985
Total liabilities	<u>63,109,855</u>	<u>31,556,837</u>
Deferred inflows of resources	3,813,386	-
Net position:		
Net investment in capital assets	17,905,311	16,540,428
Restricted for debt service	180,772	1,016,889
Restricted for food service	-	56,083
Restricted for capital projects	38,350	38,350
Unrestricted	<u>(30,563,242)</u>	<u>4,067,306</u>
Total net position	<u>\$ (12,438,809)</u>	<u>\$ 21,719,056</u>
The 2014 figures have not been updated for the adoption of GASB Statements 68 and GASB 71		

Hamilton Community Schools

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2015

Analysis of Net Position

During the fiscal year ended June 30, 2015, the District's net position increased by \$137,992. A few of the more significant factors affecting net position during the year are discussed below:

➤ Cash Equivalents, Deposits and Investments

At June 30, 2015, the District's cash equivalents, deposits and investments amounted to \$4.706 million (including fiduciary funds). This represented a decrease of \$1.64 million 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, 2015, \$181,634 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 \$1.65 million for the fiscal year ended June 30, 2015.

➤ 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, 2015, the District's bonded debt decreased by \$2.9 million as a result of repayment of bonded debt issued in prior years.

➤ Accumulated Compensated Absences and Termination Benefits

At June 30, 2015, 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 \$848,919.

Hamilton Community Schools

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2015

Results of Operations

For the fiscal years ended June 30, 2015 and 2014, the results of operations, on a District-wide basis, were:

Changes in Hamilton Community Schools' Net Position				
	Fiscal year ended June 30,		Fiscal year ended June 30,	
	2015		2014	
	Amount	%	Amount	%
Revenues:				
Program revenues:				
Charges for services	\$ 492,238	1.64%	\$ 492,545	1.74%
Operating grants	6,487,494	21.70%	4,901,775	17.37%
General revenues:				
Property taxes	6,385,375	21.36%	6,333,757	22.44%
Investment	24,277	0.08%	14,951	0.05%
State aid - unrestricted	16,161,981	54.06%	16,197,835	57.39%
Other	346,488	1.16%	285,529	1.01%
Total revenues	<u>29,897,853</u>	100.00%	<u>28,226,392</u>	100.00%
Expenses:				
Instruction	16,446,414	55.26%	15,959,405	53.90%
Support services	9,190,752	30.88%	9,374,918	31.65%
Community services	195,926	0.66%	195,053	0.66%
Food services	879,005	2.95%	823,965	2.78%
Interest on long-term debt	1,228,824	4.13%	1,420,938	4.80%
Unallocated depreciation	1,818,940	6.12%	1,837,522	6.21%
Total expenses	<u>29,759,861</u>	100.00%	<u>29,611,801</u>	100.00%
Change in net position	<u>\$ 137,992</u>		<u>\$ (1,385,409)</u>	

The 2014 figures have not been updated for GASB Statements 68 and GASB 71

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 2014 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, 2015, there were no significant unpaid property taxes.

Hamilton Community Schools

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2015

➤ 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 2014-2015 fiscal year, the District received \$7,126 per student full time equivalent. The student foundation allowance amount increased by \$100 when compared to the 2013-2014 fiscal year.

➤ Operating Grants

The District receives a significant portion of its operating revenue from categorical grants. For the fiscal year ended June 30, 2015, federal, state, and other grants amounted to \$6,626,010. This represents a 35% increase over the \$4,901,775 received for the 2013-2014 fiscal year. The main reason for this increase was due to additional 147c funds and other state and federal revenue received.

Comparative Expenditures

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

Expenditures	2014 - 2015	2013 - 2014	Increase (decrease)
Instruction	\$ 16,378,622	\$ 15,810,951	\$ 567,671
Supporting services	8,828,235	8,666,099	162,136
Food service activities	869,946	822,529	47,417
Community service activities	199,530	195,053	4,477
Capital outlay	125,096	1,980,445	(1,855,349)
Debt service	3,755,753	3,654,447	101,306
Total expenditures	<u>\$ 30,157,182</u>	<u>\$ 31,129,524</u>	<u>\$ (972,342)</u>

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, 2015.

Hamilton Community Schools

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2015

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, 2015.

	Original budget	Final budget	Actual	Final variance with budget	% variance
Total revenues	<u>\$ 24,628,700</u>	<u>\$ 25,360,700</u>	<u>\$ 25,303,778</u>	<u>\$ (56,922)</u>	<u>(0.36%)</u>
Expenditures:					
Instruction	\$ 16,114,370	\$ 16,601,500	\$ 16,378,622	\$ 222,878	1.34%
Supporting services	8,867,900	8,910,500	8,828,235	82,265	0.92%
Community services	206,160	209,500	199,530	9,970	4.76%
Total expenditures	<u>\$ 25,188,430</u>	<u>\$ 25,721,500</u>	<u>\$ 25,406,387</u>	<u>\$ 315,113</u>	<u>1.23%</u>
Other financing sources (uses)	<u>\$ 25,000</u>	<u>\$ 25,000</u>	<u>\$ 5,510</u>	<u>\$ (19,490)</u>	<u>-77.96%</u>

The original budget adopted by the Board in June 2014 was amended twice during the year. The amendments, approved in February and June 2015, reflected necessary changes to both revenues and expenditures based on projections made by the Chief Financial Officer.

Capital Asset and Debt Administration

Capital Assets

By the end of the 2014-2015 fiscal year, the District had invested approximately \$64.6 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 \$1.8 million, bringing the accumulated depreciation to roughly \$23.3 million as of June 30, 2015. This represents a net decrease of \$1.6 million over the prior fiscal year.

Hamilton Community Schools				
	2015			2014
	Cost	Accumulated depreciation	Net book value	Net book value
Land	\$ 2,169,583	\$ -	\$ 2,169,583	\$ 2,169,583
Construction in progress	-	-	-	201,795
Buildings and improvements	56,771,785	18,847,335	37,924,450	39,055,130
Furniture and fixtures	2,591,234	2,298,277	292,957	398,231
Vehicles	2,901,995	2,022,277	879,718	1,089,191
Transportation equipment	208,879	83,550	125,329	133,684
Total	<u>\$ 64,643,476</u>	<u>\$ 23,251,439</u>	<u>\$ 41,392,037</u>	<u>\$ 43,047,614</u>

Hamilton Community Schools

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2015

Long-term Debt

At June 30, 2015, the District had approximately \$25.2 million in long-term obligations which included \$24.3 million in outstanding bonded debt. The bonded debt obligation was reduced during the year as \$2.9 million of previously outstanding bonds were redeemed. In addition to the bonded debt, the District has obligation for compensated absences estimated at roughly \$849,000 at the end of the fiscal year.

Hamilton Community Schools Outstanding Long-Term Debt		
	2015	2014
General obligation bonds and other debt	\$ 24,301,642	\$ 27,155,675
Compensated absences	848,919	744,177
	<u>\$ 25,150,561</u>	<u>\$ 27,899,852</u>

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 economic difficulties faced by the State of Michigan and the District. One of the most important factors affecting the District's budget is student count. General Fund revenue is generated from the State's per pupil allowance, a combination of State aid and property taxes. Under State law, the District cannot assess additional property tax revenue for general operations.
- Demographic projections indicate that enrollment is likely to continue growing slowly over the next several years. While this is good news, especially compared to most districts within the State, the 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 remain diligent in its decision-making as the Board desires to maintain its level of reserves (fund balance). Measures to accomplish this include, but are not limited to, cooperative agreements with the Ottawa Area Intermediate School District as well as neighboring public and parochial schools and strategic changes to how the District handles its non-instructional support services.
- 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 required current school employees to make choices regarding their pension and retiree healthcare which could impact the District's and employee's contributions. It also set 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.

Hamilton Community Schools Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2015

- 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. 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, 2015**

	<u>Governmental activities</u>
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 3,881,168
Investments	725,627
Receivables:	
Accounts receivable	2,097
Intergovernmental	3,901,945
Inventories	9,965
Restricted cash and cash equivalents - capital projects	47,391
Capital assets not being depreciated	2,169,583
Capital assets, net of accumulated depreciation	<u>39,222,454</u>
TOTAL ASSETS	<u>49,960,230</u>
DEFERRED OUTFLOWS OF RESOURCES:	
Deferred charge on refunding	712,202
Related to pensions	<u>3,812,000</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>4,524,202</u>
LIABILITIES:	
Accounts payable	355,452
Due to student activities	274,727
Accrued interest	113,667
Accrued salaries and related items	2,680,456
Unearned revenue	40,444
Noncurrent liabilities:	
Due within one year	2,973,883
Due in more than one year	22,176,678
Net pension liability	<u>34,494,548</u>
TOTAL LIABILITIES	<u>63,109,855</u>
DEFERRED INFLOWS OF RESOURCES:	
Related to pensions	<u>3,813,386</u>
NET POSITION:	
Net investment in capital assets	17,905,311
Restricted for debt service	180,772
Restricted for capital projects	38,350
Unrestricted	<u>(30,563,242)</u>
TOTAL NET POSITION	<u><u>\$ (12,438,809)</u></u>

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

<u>Functions/programs</u>	<u>Expenses</u>	<u>Program revenues</u>		<u>Governmental activities</u>
		<u>Charges for services</u>	<u>Operating grants</u>	<u>Net (expense) revenue and changes in net position</u>
Governmental activities:				
Instruction	\$ 16,446,414	\$ 47,713	\$ 5,029,814	\$ (11,368,887)
Support services	9,190,752	-	760,760	(8,429,992)
Community services	195,926	-	-	(195,926)
Food services	879,005	444,525	441,485	7,005
Interest on long-term debt	1,228,824	-	255,435	(973,389)
Unallocated depreciation	1,818,940	-	-	(1,818,940)
Total governmental activities	<u>\$ 29,759,861</u>	<u>\$ 492,238</u>	<u>\$ 6,487,494</u>	<u>(22,780,129)</u>
General revenues:				
Property taxes, levied for general purposes				2,897,353
Property taxes, levied for debt service				3,488,022
Investment earnings				24,277
State sources - unrestricted				16,161,981
Other				346,488
Total general revenues				<u>22,918,121</u>
CHANGE IN NET POSITION				137,992
NET POSITION, beginning of year, as restated				<u>(12,576,801)</u>
NET POSITION, end of year				<u>\$ (12,438,809)</u>

**HAMILTON COMMUNITY SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2015**

ASSETS	General Fund	2010 Capital projects fund	Total nonmajor funds	Total governmental funds
ASSETS:				
Cash and cash equivalents	\$ 3,547,091	\$ -	\$ 334,077	\$ 3,881,168
Investments	725,627	-	-	725,627
Receivables:				
Accounts receivable	-	-	2,097	2,097
Intergovernmental	3,894,928	-	7,017	3,901,945
Due from other funds	-	65,531	251,553	317,084
Inventories	-	-	9,965	9,965
Restricted cash and cash equivalents	-	47,391	-	47,391
TOTAL ASSETS	\$ 8,167,646	\$ 112,922	\$ 604,709	\$ 8,885,277
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ 354,915	\$ -	\$ 537	\$ 355,452
Due to other funds	306,726	10,208	150	317,084
Due to student activities	274,727	-	-	274,727
Accrued salaries and related items	2,680,456	-	-	2,680,456
Unearned revenue	17,002	-	23,442	40,444
TOTAL LIABILITIES	3,633,826	10,208	24,129	3,668,163
FUND BALANCES:				
Nonspendable:				
Inventories	-	-	9,965	9,965

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>
FUND BALANCES:				
Restricted for:				
Capital projects	\$ -	\$ 102,714	\$ 38,350	\$ 141,064
Food service	-	-	67,579	67,579
Debt service	-	-	294,439	294,439
Committed:				
Equipment and maintenance projects (EMP)	1,046,417	-	-	1,046,417
Capital projects	-	-	170,247	170,247
Assigned for:				
Subsequent year expenditures	339,700	-	-	339,700
Compensated absences	848,919	-	-	848,919
Unassigned:				
General fund	2,298,784	-	-	2,298,784
TOTAL FUND BALANCES	<u>4,533,820</u>	<u>102,714</u>	<u>580,580</u>	<u>5,217,114</u>
LIABILITIES AND FUND BALANCES	<u>\$ 8,167,646</u>	<u>\$ 112,922</u>	<u>\$ 604,709</u>	<u>\$ 8,885,277</u>
Total governmental fund balances				\$ 5,217,114
Amounts reported for governmental activities in the statement of net position are different because:				
Deferred charge on refunding, net of amortization			\$ 712,202	
Deferred outflows of resources - related to pensions			3,812,000	
Deferred inflows of resources - related to pensions			<u>(3,813,386)</u>	
				710,816
Capital assets used in governmental activities are not financial resources and are not reported in the funds				
The cost of the capital assets is			64,643,476	
Accumulated depreciation is			<u>(23,251,439)</u>	
				41,392,037
Long-term liabilities are not due and payable in the current period and are not reported in the funds:				
Bonds payable				(24,301,642)
Compensated absences				(848,919)
Accrued interest is not included as a liability in governmental funds, it is recorded when paid				(113,667)
Net pension liability				<u>(34,494,548)</u>
Net position of governmental activities				<u>\$ (12,438,809)</u>

See notes to financial statements.

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

	<u>General Fund</u>	<u>2010 Capital projects fund</u>	<u>Total nonmajor funds</u>	<u>Total governmental funds</u>
REVENUES:				
Local sources:				
Property taxes	\$ 2,897,353	\$ -	\$ 3,488,022	\$ 6,385,375
Tuition	47,713	-	-	47,713
Food sales	-	-	444,525	444,525
Investment earnings	23,458	(1,461)	2,280	24,277
Other	244,183	-	-	244,183
Total local sources	3,212,707	(1,461)	3,934,827	7,146,073
State sources	19,024,895	-	66,124	19,091,019
Federal sources	743,138	-	630,796	1,373,934
Intermediate school districts	2,323,038	-	-	2,323,038
Total revenues	25,303,778	(1,461)	4,631,747	29,934,064
EXPENDITURES:				
Current:				
Instruction	16,378,622	-	-	16,378,622
Supporting services	8,828,235	-	-	8,828,235
Food service activities	-	-	869,946	869,946
Community service activities	199,530	-	-	199,530

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>
EXPENDITURES (Concluded):				
Debt service:				
Principal repayment	\$ -	\$ -	\$ 2,230,000	\$ 2,230,000
Interest	-	-	1,338,188	1,338,188
Bond issuance costs	-	-	186,615	186,615
Other	-	-	950	950
Capital outlay	-	125,096	-	125,096
Total expenditures	<u>25,406,387</u>	<u>125,096</u>	<u>4,625,699</u>	<u>30,157,182</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(102,609)</u>	<u>(126,557)</u>	<u>6,048</u>	<u>(223,118)</u>
OTHER FINANCING SOURCES (USES):				
Proceeds from sale of capital assets	510	-	-	510
Proceeds from issuance of bonds	-	-	16,520,000	16,520,000
Premium on issuance of bonds	-	-	1,089,846	1,089,846
Payment to escrow agent	-	-	(18,545,231)	(18,545,231)
Transfers in	5,000	-	1,402,878	1,407,878
Transfers out	-	-	(1,407,878)	(1,407,878)
Total other financing sources (uses)	<u>5,510</u>	<u>-</u>	<u>(940,385)</u>	<u>(934,875)</u>
NET CHANGE IN FUND BALANCES	<u>(97,099)</u>	<u>(126,557)</u>	<u>(934,337)</u>	<u>(1,157,993)</u>
FUND BALANCES:				
Beginning of year	<u>4,630,919</u>	<u>229,271</u>	<u>1,514,917</u>	<u>6,375,107</u>
End of year	<u>\$ 4,533,820</u>	<u>\$ 102,714</u>	<u>\$ 580,580</u>	<u>\$ 5,217,114</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, 2015**

Net change in fund balances total governmental funds \$ (1,157,993)

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	(1,818,940)
Capital outlay	181,634
Book value of capital assets being disposed	(18,271)

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	223,031
Accrued interest payable, end of the year	(113,667)

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	2,230,000
Payment to escrow agent	18,545,231
Proceeds from issuance of bonds	(16,520,000)
Premium on issuance of bonds	(1,089,846)
Amortization of deferred loss on refunding	(85,067)
Amortization of bond premium	66,699

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	744,177
Accrued compensated absences, end of the year	(848,919)

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

Pension related items	(200,077)
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Change in net position of governmental activities	\$ 137,992
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**HAMILTON COMMUNITY SCHOOLS
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2015**

	Agency fund	Private Purpose Trust Fund	Totals
ASSETS:			
Cash and cash equivalents	\$ -	\$ 52,215	\$ 52,215
Due from primary government	274,727	-	274,727
	<u>274,727</u>	<u>52,215</u>	<u>326,942</u>
LIABILITIES:			
Accounts payable	14,171	-	14,171
Due to student and other groups	260,556	-	260,556
	<u>274,727</u>	<u>-</u>	<u>274,727</u>
NET POSITION:			
Restricted for trust activities	<u>\$ -</u>	<u>\$ 52,215</u>	<u>\$ 52,215</u>

**HAMILTON COMMUNITY SCHOOLS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED JUNE 30, 2015**

	<u>Private Purpose Trust Fund</u>
ADDITIONS:	
Interest earnings	<u>\$ 565</u>
DEDUCTIONS:	
Scholarship	<u>1,000</u>
CHANGE IN NET POSITION	(435)
NET POSITION:	
Beginning of year	<u>52,650</u>
End of year	<u><u>\$ 52,215</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	\$ 18,790,998
Expenditures	\$ 18,688,284

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, 2015. 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. Defined benefit plan

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

**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)

6. Deferred outflows/inflows of resources

Deferred outflows

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District has two items that qualify for reporting in this category. They are the deferred charge on refunding and pension related items 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. Deferred outflows are recognized for pension related items. These amounts are expensed in the plan years in which they apply

Deferred inflows

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

7. Net position flow assumption

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

**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)

8. Fund balance flow assumptions

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

9. Fund balance policies

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

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

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.

**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)

9. Fund balance policies (Concluded)

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, 2015:

Fund Balance, July 1, 2014	\$ 1,150,058
EMP expenditures	<u>(103,641)</u>
Fund Balance, June 30, 2015	<u>\$ 1,046,417</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.

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.

**HAMILTON COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

H. Revenues and Expenditures/Expenses (Concluded)

2. Property taxes (Concluded)

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

Fund	Mills
General fund:	
Non-Principal Residence Exemption (PRE)	18.00
Commercial Personal Property	6.00
Debt service fund:	
PRE, Non-PRE, Commercial Personal Property	4.50

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.

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.

**HAMILTON COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - DEPOSITS AND INVESTMENTS

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

<u>Investment Type</u>	<u>Fair value</u>	<u>Weighted average maturity (years)</u>	<u>Rating</u>	<u>%</u>
Government and Agency - Money Market	\$ 725,627	0.0027	AAA	100.00%
Portfolio weighted average maturity		<u>0.0027</u>		

1 day maturity equals 0.0027, one year equals 1.00

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, 2015, 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, 2015, \$3,733,249 of the District's bank balance of \$4,301,461 was exposed to custodial credit risk because it was uninsured and uncollateralized. The carrying amount is \$3,980,774.

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.

**HAMILTON COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - DEPOSITS AND INVESTMENTS (Concluded)

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

At June 30, 2015, the carrying amount is as follows:

Deposits - including fiduciary funds of \$52,215	\$ 3,980,774
Investments	<u>725,627</u>
	<u>\$ 4,706,401</u>

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

Fiduciary fund:	
Cash and cash equivalents	\$ 52,215
District wide:	
Current assets:	
Cash and cash equivalents	3,881,168
Investments	725,627
Restricted cash and cash equivalents - capital projects	<u>47,391</u>
	<u>\$ 4,706,401</u>

**HAMILTON COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - CAPITAL ASSETS

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

	Balance July 1, 2014	Additions	Deletions/ reclassification	Balance June 30, 2015
Assets not being depreciated:				
Land	\$ 2,169,583	\$ -	\$ -	\$ 2,169,583
Construction in progress	201,795	-	201,795	-
Subtotal	<u>2,371,378</u>	<u>-</u>	<u>201,795</u>	<u>2,169,583</u>
Other capital assets:				
Building and improvements	56,435,315	353,745	17,275	56,771,785
Furniture and equipment	2,599,198	5,336	13,300	2,591,234
Vehicles	3,114,876	24,348	237,229	2,901,995
Infrastructure	208,879	-	-	208,879
Subtotal	<u>62,358,268</u>	<u>383,429</u>	<u>267,804</u>	<u>62,473,893</u>
Accumulated depreciation:				
Building and improvements	17,380,185	1,476,654	9,504	18,847,335
Furniture and equipment	2,200,967	110,110	12,800	2,298,277
Vehicles	2,025,685	223,821	227,229	2,022,277
Infrastructure	75,195	8,355	-	83,550
Total accumulated depreciation	<u>21,682,032</u>	<u>1,818,940</u>	<u>249,533</u>	<u>23,251,439</u>
Net capital assets being depreciated	<u>40,676,236</u>	<u>(1,435,511)</u>	<u>18,271</u>	<u>39,222,454</u>
Net governmental capital assets	<u>\$ 43,047,614</u>	<u>\$ (1,435,511)</u>	<u>\$ 220,066</u>	<u>\$ 41,392,037</u>

Depreciation expense for the fiscal year ended June 30, 2015 amounted to \$1,818,940. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

**HAMILTON COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 4 - INTERGOVERNMENTAL RECEIVABLES

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

	Governmental funds
Other governmental units:	
State aid	\$ 3,458,801
Federal revenue	255,207
ISD and other	187,937
	\$ 3,901,945

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.

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

	General obligation bonds	Compensated absences	Total
Balance July 1, 2014	\$ 27,155,675	\$ 744,177	\$ 27,899,852
Additions	17,609,846	104,742	17,714,588
Deletions	(20,463,879)	-	(20,463,879)
Balance June 30, 2015	24,301,642	848,919	25,150,561
Total due within one year	2,725,000	248,883	2,973,883
Total due in more than one year	\$ 21,576,642	\$ 600,036	\$ 22,176,678

**HAMILTON COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 - LONG-TERM DEBT (Continued)

Bonds payable at June 30, 2015 is comprised of the following issues:

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
2015 refunding bonds, due in annual installments of \$465,000 to \$2,725,000 through May 1, 2030 with interest from 3.00% to 5.00%.	16,520,000
Plus: premium on bond refunding	<u>1,166,642</u>
Total bonded debt and other long-term obligations	24,301,642
Compensated absences	<u>848,919</u>
Total general long-term debt	<u><u>\$ 25,150,561</u></u>

On May 21, 2015, the District issued general obligation bonds of \$16,520,000 with interest rates ranging from 3.00% to 5.00%. The District issued the bonds to refund \$4,500,000 of the District's outstanding 2005 bonds with interest rates ranging from 4.00% to 5.00% and to refund \$13,500,000 of the District's outstanding 2010 building and site bonds with interest rates ranging from 3.75% to 5.70%. The bonds mature at various times through May 1, 2030. The general obligation bonds were issued at a premium after paying issuance costs of \$186,615, the net proceeds were \$17,423,231. The net proceeds from the issuance of the refunding bonds were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the bonds are paid in full. The advance refunding met the requirements of an in-substance debt defeasance and the term bonds were removed from the District's government-wide financial statements.

As a result of the advance refunding, the District reduced its total debt service requirements by \$2,034,734, which resulted in an economic gain (difference between the present value of the debt service payment on the old and new debt) of \$1,819,119.

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, 2015, \$33,975,000 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, 2015, including interest payments of \$5,473,300 are as follows:

Year ending June 30,	Principal	Interest	Total
2016	\$ 2,725,000	\$ 836,200	\$ 3,561,200
2017	1,875,000	744,200	2,619,200
2018	1,950,000	667,700	2,617,700
2019	2,025,000	590,525	2,615,525
2020	2,105,000	512,650	2,617,650
2021 - 2025	7,455,000	1,559,525	9,014,525
2026 - 2030	5,000,000	562,500	5,562,500
	23,135,000	5,473,300	28,608,300
Premium on bond refunding	1,166,642	-	1,166,642
Compensated absences	848,919	-	848,919
	<u>\$ 25,150,561</u>	<u>\$ 5,473,300</u>	<u>\$ 30,623,861</u>

NOTE 6 - INTERFUND RECEIVABLES AND PAYABLES

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

Receivable fund		Payable fund	
Special revenue	\$ 42,956	General fund	\$ 306,726
2010 Capital project fund	65,531	2010 Capital project fund	10,208
1998 Durant	38,350	Debt service	150
Building and Site	170,247		
	<u>\$ 317,084</u>		<u>\$ 317,084</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 Michigan Public School Employees' Retirement System (MPSERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. MPSERS issues a publicly available Comprehensive Annual Financial Report that can be obtained at <http://michigan.gov/orsschools/0,1607,7-206-36585-,00.html>.

Benefits Provided

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

Pension Reform 2010

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

Pension Reform 2012

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

**HAMILTON COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

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

Regular Retirement (no reduction factor for age)

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

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

Pension Plus

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

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

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

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

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

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

Member Contributions

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

**HAMILTON COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

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

Employer Contributions

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis.

The District's pension contributions for the year ended June 30, 2015 were equal to the required contribution total. Pension contributions were approximately \$4,179,000, with \$3,896,000 specifically for the Defined Benefit Plan. These amounts include Section 147 contributions also.

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

Pension Liabilities

At June 30, 2015, the District reported a liability of \$34,494,548 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2013 and rolled-forward using generally accepted actuarial procedures. The District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2014, the District's proportion was .1566 percent.

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

For the year ended June 30, 2015, the District recognized pension expense of \$2,960,149. At June 30, 2015, the Reporting Unit reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred outflows of resources	Deferred inflows of resources
Change of assumptions	\$ 1,272,776	\$ -
Net difference between projected and actual earnings on pension plan investment earnings	-	(3,813,386)
Reporting Unit's contributions subsequent to the measurement date	2,539,224	-
	\$ 3,812,000	\$ (3,813,386)

**HAMILTON COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

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

\$2,539,224, reported as deferred outflows of resources related to pensions resulting from District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

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

Year ended June 30,	Amount
2016	\$ (618,405)
2017	(618,405)
2018	(618,405)
2019	(685,395)

Actuarial Assumptions

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

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

Inflation - 2.5%

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

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

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

**HAMILTON COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

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

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

<u>Investment category</u>	<u>Target allocation</u>	<u>Long-term expected real rate of return*</u>
Domestic Equity Pools	28.00%	4.80%
Alternate Investment Pools	18.00	8.50
International Equity	16.00	6.10
Fixed Income Pools	10.50	1.50
Real Estate and Infrastructure Pools	10.00	5.30
Absolute Return Pools	15.50	6.30
Short Term Investment Pools	2.00	(0.20)
	<u>100.00%</u>	

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

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

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

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

	<u>1% Lower (7.0%)</u>	<u>Discount rate (8.0%)</u>	<u>1% Higher (9.0%)</u>
Reporting Unit's proportionate share of the net pension liability	<u>\$ 45,478,058</u>	<u>\$ 34,494,548</u>	<u>\$ 25,240,779</u>

HAMILTON COMMUNITY SCHOOLS NOTES TO FINANCIAL STATEMENTS

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

Pension Plan Fiduciary Net Position

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

Benefit Provisions - Other Postemployment

Introduction

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

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

Retiree Healthcare Reform of 2012

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

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

Employer Contributions

The District postemployment healthcare contributions to MPSERS for the year ended June 30, 2015 were approximately \$358,000.

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 31 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 \$1,273,481, 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 \$5,000 to the general fund. The transfer from the food service fund was made to allocate indirect costs. The 2005 refunding and 2010 building and site debt service funds transferred a combined \$1,402,878 to the 2015 refunding debt service fund.

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 - NEW ACCOUNTING STANDARDS

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

**HAMILTON COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 11 - NEW ACCOUNTING STANDARDS (Concluded)

Summary:

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

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

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

	Governmental activities
Net position as previously stated July 1, 2014	\$ 21,719,056
Adoption of GASB Statements 68 and 71	
Net pension liability	(36,473,962)
Deferred outflows	2,178,105
Net position as restated July 1, 2014	\$ (12,576,801)

NOTE 12 - UPCOMING ACCOUNTING PRONOUNCEMENT

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

REQUIRED SUPPLEMENTARY INFORMATION

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

	Original budget	Final budget	Actual	Variance with final budget
REVENUES:				
Local sources	\$ 3,450,500	\$ 3,222,600	\$ 3,212,707	\$ (9,893)
State sources	18,260,700	19,042,800	19,024,895	(17,905)
Federal sources	769,600	762,700	743,138	(19,562)
Intermediate school districts	2,147,900	2,332,600	2,323,038	(9,562)
Total revenues	<u>24,628,700</u>	<u>25,360,700</u>	<u>25,303,778</u>	<u>(56,922)</u>
EXPENDITURES:				
Current:				
Instruction:				
Basic programs	13,252,320	13,871,500	13,594,140	277,360
Added needs	2,862,050	2,730,000	2,784,482	(54,482)
Total instruction	<u>16,114,370</u>	<u>16,601,500</u>	<u>16,378,622</u>	<u>222,878</u>
Supporting services:				
Pupil	1,293,380	1,185,000	1,171,489	13,511
Instructional staff	570,550	951,900	915,030	36,870
General administration	324,120	345,100	347,180	(2,080)
School administration	1,575,340	1,620,900	1,644,157	(23,257)
Business	422,110	378,700	430,869	(52,169)
Operation/maintenance	2,371,970	2,367,600	2,318,467	49,133
Pupil transportation	1,390,740	1,288,000	1,258,408	29,592
Central	202,410	114,500	114,498	2
Athletics	717,280	658,800	628,137	30,663
Total supporting services	<u>8,867,900</u>	<u>8,910,500</u>	<u>8,828,235</u>	<u>82,265</u>
Community services	206,160	209,500	199,530	9,970
Total expenditures	<u>25,188,430</u>	<u>25,721,500</u>	<u>25,406,387</u>	<u>315,113</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(559,730)</u>	<u>(360,800)</u>	<u>(102,609)</u>	<u>258,191</u>
OTHER FINANCING SOURCES (USES):				
Proceeds from sale of capital assets	-	-	510	510
Transfers in	25,000	25,000	5,000	(20,000)
Total other financing sources (uses)	<u>25,000</u>	<u>25,000</u>	<u>5,510</u>	<u>(19,490)</u>
NET CHANGE IN FUND BALANCE	<u>\$ (534,730)</u>	<u>\$ (335,800)</u>	<u>(97,099)</u>	<u>\$ 238,701</u>
FUND BALANCE:				
Beginning of year			<u>4,630,919</u>	
End of year			<u>\$ 4,533,820</u>	

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

	2014
Reporting unit's proportion of net pension liability (%)	0.15660%
Reporting unit's proportionate share of net pension liability	\$ 34,494,548
Reporting unit's covered-employee payroll	\$ 13,315,468
Reporting unit's proportionate share of net pension liability as a percentage of its covered-employee payroll	259.06%
Plan fiduciary net position as a percentage of total pension liability	66.20%

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

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

	2015
Statutorily required contributions	\$ 2,960,149
Contributions in relation to statutorily required contributions	2,960,149
Contribution deficiency (excess)	\$ -
Reporting unit's covered-employee payroll	\$ 13,221,971
Contributions as a percentage of covered-employee payroll	22.39%

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

**HAMILTON COMMUNITY SCHOOLS
SCHEDULE OF NET PENSION LIABILITY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

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

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

ADDITIONAL SUPPLEMENTARY INFORMATION

**HAMILTON COMMUNITY SCHOOLS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND TYPES
JUNE 30, 2015**

	<u>Special revenue</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>		
ASSETS					
ASSETS:					
Cash and cash equivalents	\$ 39,488	\$ -	\$ -	\$ 294,589	\$ 334,077
Receivables:					
Accounts receivable	2,097	-	-	-	2,097
Intergovernmental	7,017	-	-	-	7,017
Due from other funds	42,956	170,247	38,350	-	251,553
Inventories	9,965	-	-	-	9,965
TOTAL ASSETS	<u>\$ 101,523</u>	<u>\$ 170,247</u>	<u>\$ 38,350</u>	<u>\$ 294,589</u>	<u>\$ 604,709</u>
LIABILITIES:					
Accounts payable	\$ 537	\$ -	\$ -	\$ -	\$ 537
Due to other funds	-	-	-	150	150
Unearned revenue	23,442	-	-	-	23,442
TOTAL LIABILITIES	<u>23,979</u>	<u>-</u>	<u>-</u>	<u>150</u>	<u>24,129</u>
FUND BALANCES:					
Nonspendable for inventories	9,965	-	-	-	9,965
Restricted for:					
Debt service	-	-	-	294,439	294,439
Food service	67,579	-	-	-	67,579
Capital projects	-	-	38,350	-	38,350
Committed for capital projects	-	170,247	-	-	170,247
TOTAL FUND BALANCES	<u>77,544</u>	<u>170,247</u>	<u>38,350</u>	<u>294,439</u>	<u>580,580</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 101,523</u>	<u>\$ 170,247</u>	<u>\$ 38,350</u>	<u>\$ 294,589</u>	<u>\$ 604,709</u>

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

	Special revenue fund	Capital project funds			Total nonmajor funds
	Food Service	Building and Site	1998 Durant	Debt service funds	
REVENUES:					
Local sources:					
Property taxes	\$ -	\$ -	\$ -	\$ 3,488,022	\$ 3,488,022
Food sales	444,525	-	-	-	444,525
Investment earnings	23	57	-	2,200	2,280
State sources	66,124	-	-	-	66,124
Federal sources	375,361	-	-	255,435	630,796
Total revenues	<u>886,033</u>	<u>57</u>	<u>-</u>	<u>3,745,657</u>	<u>4,631,747</u>
EXPENDITURES:					
Current:					
Special revenue activities:					
Salaries	276,179	-	-	-	276,179
Benefits	129,928	-	-	-	129,928
Supplies and materials	439,163	-	-	-	439,163
Other expenses	24,676	-	-	-	24,676
Debt service:					
Principal repayment	-	-	-	2,230,000	2,230,000
Interest	-	-	-	1,338,188	1,338,188
Bond issuance costs	-	-	-	186,615	186,615
Other expenses	-	-	-	950	950
Total expenditures	<u>869,946</u>	<u>-</u>	<u>-</u>	<u>3,755,753</u>	<u>4,625,699</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>16,087</u>	<u>57</u>	<u>-</u>	<u>(10,096)</u>	<u>6,048</u>
OTHER FINANCING SOURCES (USES):					
Proceeds from issuance of bonds	-	-	-	16,520,000	16,520,000
Premium on issuance of bonds	-	-	-	1,089,846	1,089,846
Payment to escrow agent	-	-	-	(18,545,231)	(18,545,231)
Transfers in	-	-	-	1,402,878	1,402,878
Transfers out	(5,000)	-	-	(1,402,878)	(1,407,878)
Total other financing sources (uses)	<u>(5,000)</u>	<u>-</u>	<u>-</u>	<u>(935,385)</u>	<u>(940,385)</u>
NET CHANGE IN FUND BALANCES	<u>11,087</u>	<u>57</u>	<u>-</u>	<u>(945,481)</u>	<u>(934,337)</u>
FUND BALANCES:					
Beginning of year	<u>66,457</u>	<u>170,190</u>	<u>38,350</u>	<u>1,239,920</u>	<u>1,514,917</u>
End of year	<u>\$ 77,544</u>	<u>\$ 170,247</u>	<u>\$ 38,350</u>	<u>\$ 294,439</u>	<u>\$ 580,580</u>

**HAMILTON COMMUNITY SCHOOLS
DEBT SERVICE FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2015**

	<u>2008 Refunding</u>	<u>2015 Refunding</u>	<u>Totals</u>
ASSETS			
ASSETS:			
Cash and cash equivalents	<u>\$ 13,711</u>	<u>\$ 280,878</u>	<u>\$ 294,589</u>
LIABILITIES:			
Due to other funds	<u>\$ 150</u>	<u>\$ -</u>	<u>\$ 150</u>
FUND BALANCES:			
Restricted for debt service	<u>13,561</u>	<u>280,878</u>	<u>294,439</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 13,711</u>	<u>\$ 280,878</u>	<u>\$ 294,589</u>

**HAMILTON COMMUNITY SCHOOLS
DEBT SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2015**

	2005 Refunding	2008 Refunding	2010 Building & Site	2015 Refunding	Totals
REVENUES:					
Property taxes	\$ 2,325,463	\$ 85,108	\$ 1,077,451	\$ -	\$ 3,488,022
Investment earnings	1,462	55	683	-	2,200
Federal sources	-	-	255,435	-	255,435
Total revenues	<u>2,326,925</u>	<u>85,163</u>	<u>1,333,569</u>	<u>-</u>	<u>3,745,657</u>
EXPENDITURES:					
Principal repayment	1,530,000	-	700,000	-	2,230,000
Interest	286,300	264,600	787,288	-	1,338,188
Issuance costs	-	-	-	186,615	186,615
Other expenses	300	500	150	-	950
Total expenditures	<u>1,816,600</u>	<u>265,100</u>	<u>1,487,438</u>	<u>186,615</u>	<u>3,755,753</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>510,325</u>	<u>(179,937)</u>	<u>(153,869)</u>	<u>(186,615)</u>	<u>(10,096)</u>
OTHER FINANCING SOURCES (USES):					
Proceeds from issuance of bonds	-	-	-	16,520,000	16,520,000
Premium on issuance of bonds	-	-	-	1,089,846	1,089,846
Payment to escrow agent	-	-	-	(18,545,231)	(18,545,231)
Transfers in	-	-	-	1,402,878	1,402,878
Transfers out	(722,270)	-	(680,608)	-	(1,402,878)
Total other financing sources (uses)	<u>(722,270)</u>	<u>-</u>	<u>(680,608)</u>	<u>467,493</u>	<u>(935,385)</u>
NET CHANGE IN FUND BALANCES	<u>(211,945)</u>	<u>(179,937)</u>	<u>(834,477)</u>	<u>280,878</u>	<u>(945,481)</u>
FUND BALANCES:					
Beginning of year	211,945	193,498	834,477	-	1,239,920
End of year	<u>\$ -</u>	<u>\$ 13,561</u>	<u>\$ -</u>	<u>\$ 280,878</u>	<u>\$ 294,439</u>

**HAMILTON COMMUNITY SCHOOLS
LONG TERM DEBT
BONDED DEBT - PRINCIPAL AND INTEREST REQUIREMENTS
JUNE 30, 2015**

2008 Refunding Bonds

Calendar year year	Interest rate	Principal due May 1,	Interest due		Total due annually
			May 1	November 1	
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	3.25%	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>\$ 733,800</u>	<u>\$ 601,500</u>	<u>\$ 7,950,300</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, 2015**

2015 Refunding Bonds

Calendar year	Interest rate	Principal due May 1,	Interest due		Total due annually
			May 1	November 1	
2016	4.00%	\$ 2,725,000	\$ 313,050	\$ 258,550	\$ 3,296,600
2017	4.00%	1,875,000	258,550	221,050	2,354,600
2018	4.00%	1,950,000	221,050	182,050	2,353,100
2019	3.00%	465,000	182,050	175,075	822,125
2020	3.00%	480,000	175,075	167,875	822,950
2021	3.00%	500,000	167,875	160,375	828,250
2022	3.00%	525,000	160,375	152,500	837,875
2023	3.00%	1,000,000	152,500	137,500	1,290,000
2024	3.00%	1,000,000	137,500	122,500	1,260,000
2025	3.00%	1,000,000	122,500	107,500	1,230,000
2026	4.00%	1,000,000	107,500	87,500	1,195,000
2027	4.00%	1,000,000	87,500	67,500	1,155,000
2028	4.00%	1,000,000	67,500	47,500	1,115,000
2029	4.50%	1,000,000	47,500	25,000	1,072,500
2030	5.00%	1,000,000	25,000	-	1,025,000
Total 2015 bonded debt		<u>\$ 16,520,000</u>	<u>\$ 2,225,525</u>	<u>\$ 1,912,475</u>	<u>\$ 20,658,000</u>

The above bonds dated May 21, 2015 were issued for the purpose of refunding that portion of the District's outstanding 2005 Refunding Bonds, dated March 30, 2005 which are due and payable May 1, 2016 through May 1, 2018, currently refunding that portion of the District's outstanding 2010 School Building & Site Bonds, dated January 27, 2010, which are due and payable May 1, 2016 through May 1, 2030, paying the applicable redemption premium on the 2010 bonds, and paying the costs of issuing the 2015 Refunding Bonds. The amount of the original bond issue was \$16,520,000.

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

Federal grantor/pass-through grantor/ program title	Federal CFDA number	Pass- through grantor's number	Approved grant award amount	Accrued revenue July 1, 2014	(Memo only) Prior year expenditures	Current year expenditures	Current year cash receipts	Accrued revenue June 30, 2015
<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		\$ 50,378	\$ -	\$ -	\$ 50,378	\$ 50,378	\$ -
			50,378	-	-	50,378	50,378	-
National School Lunch Program - Breakfast	10.553	151970	36,289	-	-	36,289	36,289	-
National School Lunch Program - Breakfast		141970	4,252	-	-	4,252	4,252	-
			40,541	-	-	40,541	40,541	-
Cash assistance								
National School Lunch Program - Section 11	10.555	151960	248,363	-	-	248,363	248,363	-
National School Lunch Program - Section 11		141960	36,079	-	-	36,079	36,079	-
			284,442	-	-	284,442	284,442	-
Total Child Nutrition Cluster			375,361	-	-	375,361	375,361	-
Total U.S. Department of Agriculture			375,361	-	-	375,361	375,361	-

The accompanying notes are an integral part of this schedule.

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

Federal grantor/pass-through grantor/ program title	Federal CFDA number	Pass- through grantor's number	Approved grant award amount	Accrued revenue July 1, 2014	(Memo only) Prior year expenditures	Current year expenditures	Current year cash receipts	Accrued revenue June 30, 2015
U.S. Department of Education:								
Passed through Michigan Department of Education:								
Title I Cluster:								
E.C.I.A. Title I	84.010	151530-1415	\$ 171,577	\$ -	\$ -	\$ 167,018	\$ 133,085	\$ 33,933
E.C.I.A. Title I	84.010	141530-1314	212,515	11,724	201,724	-	11,724	-
Total Title I Cluster			384,092	11,724	201,724	167,018	144,809	33,933
Title IIA, Improving Teacher Quality	84.367	150520-1415	96,019	-	-	81,192	50,601	30,591
Title IIA, Improving Teacher Quality	84.367	140520-1314	108,978	13,967	68,967	-	13,967	-
			204,997	13,967	68,967	81,192	64,568	30,591
Total passed through Michigan Department of Education			589,089	25,691	270,691	248,210	209,377	64,524
Passed through Ottawa Area Intermediate School District:								
Special Education Cluster:								
IDEA	84.027	150450-1415	470,010	-	-	470,010	287,252	182,758
IDEA	84.027	140450-1314	497,273	195,405	497,273	-	195,405	-
			967,283	195,405	497,273	470,010	482,657	182,758
Pre School Incentive	84.173	150460-1415	16,234	-	-	16,234	9,995	6,239
Pre School Incentive	84.173	140460-1314	15,822	4,975	15,822	-	4,975	-
			32,056	4,975	15,822	16,234	14,970	6,239
Total Special Education Cluster:			999,339	200,380	513,095	486,244	497,627	188,997
McKinney-Vento Homeless	84.196	152320-1415	1,686	-	-	1,686	-	1,686
	84.196	142320-1314	1,870	-	-	262	262	-
			3,556	-	-	1,948	262	1,686
Total passed through Ottawa Area Intermediate School District			1,002,895	200,380	513,095	488,192	497,889	190,683

The accompanying notes are an integral part of this schedule.

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

Federal grantor/pass-through grantor/ program title	Federal CFDA number	Pass- through grantor's number	Approved grant award amount	Accrued revenue July 1, 2014	(Memo only) Prior year expenditures	Current year expenditures	Current year cash receipts	Accrued revenue June 30, 2015
<u>U.S. Department of Education:</u>								
Passed through Zeeland Public Schools:								
English Language Acquisition	84.365		\$ 3,721	\$ -	\$ -	\$ 3,721	3,721	\$ -
English Language Acquisition	84.365		2,201	2,201	2,201	-	2,201	-
			<u>5,922</u>	<u>2,201</u>	<u>2,201</u>	<u>3,721</u>	<u>5,922</u>	<u>-</u>
Total U.S. Department of Education			<u>1,597,906</u>	<u>228,272</u>	<u>785,987</u>	<u>740,123</u>	<u>713,188</u>	<u>255,207</u>
<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		3,015	-	-	3,015	3,015	-
TOTAL FEDERAL AWARDS			<u><u>\$ 1,976,282</u></u>	<u><u>\$ 228,272</u></u>	<u><u>\$ 785,987</u></u>	<u><u>\$ 1,118,499</u></u>	<u><u>\$ 1,091,564</u></u>	<u><u>\$ 255,207</u></u>

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, 2015**

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, 2015. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of 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) was audited as the major program, representing 34% of expenditures. The District qualifies for low risk auditee status.
4. The threshold for distinguishing Type A and Type B programs was \$300,000.
5. Management has utilized the 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	\$ 743,138
Other nonmajor governmental funds	630,796
	1,373,934
Total per financial statements	1,373,934
Less: Federal subsidy for Build America Bonds, not subject to audit in accordance with OMB Circular A-133	(255,435)
	\$ 1,118,499
Total expenditures reported on the Schedule of Expenditures of Federal Awards	\$ 1,118,499

**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, 2015, 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 26, 2015.

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 26, 2015

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

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
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, 2015. 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, 2015.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned cost as item 2015-001. Our opinion on each major program is not modified with respect to this matter.

Hamilton Community Schools' response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Hamilton Community Schools' response was not subjected to the auditing procedures applied in the audit of noncompliance and, accordingly, we express no opinion on the response.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance as described in the accompanying schedule of findings and questioned costs as item 2015-001 that we consider to be a significant deficiency.

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 26, 2015

**HAMILTON COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2015**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: *Unmodified*

Internal control over financial reporting:

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

➤ Significant deficiency(ies) identified? _____ Yes X 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? X Yes _____ No

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

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

Identification of major programs:

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

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

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

Section II - Financial Statement Findings

None noted

**HAMILTON COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2015**

Section III - Federal Award Findings and Questioned Costs

Finding 2015-001 Considered a significant deficiency

Federal Program: Child Nutrition Cluster, CFDA Nos. 10.553 & 10.555

Specific Requirement: Eligibility

Condition: The District did not correctly complete an application for a child that was known to be eligible for meal benefits, but that failed to properly apply. The child was awarded meal benefits with an incomplete application. In addition, the District incorrectly awarded a child free meal benefits when the child's application indicated reduced meal benefits were appropriate.

Criteria: Federal guidelines state that school officials may complete an application for a child who is known to be eligible for meal benefits if the household fails to apply. When exercising this option, the school official must complete an application on behalf of the child based on the best household size and income information known to that official. The sources of the information must be noted on the application. The household must then be notified that the child has been certified to receive free or reduced meal benefits. This option is intended for limited use. In relation to the incorrect award of free meal benefits to the child that should have been granted reduced benefits, the income limitations must be followed during the allocation of free and reduced meal benefits.

Context: The first application related to a seldom used option and was not properly executed due to this limited exposure. The second application appears to be an oversight during the application approval process.

Questioned Costs: Known questioned costs for the year ended June 30, 2015 were \$454.88. If these costs were extrapolated to the entire population likely questioned costs would approximate \$13,774.

Cause: See context.

Effect: Without the proper utilization of this option, meal benefits could be granted on a partial basis and in excess of the intended limited use. Without careful attention to the income limitations, free and reduced meal benefits could be granted to children that do not necessitate these benefits.

Recommendation: We recommend that the District implement requirements discussed in the criteria section when utilizing the official approval option and pay careful attention to the income limitations.

**HAMILTON COMMUNITY SCHOOLS
CORRECTIVE ACTION PLAN
CONTACT PERSON: SCOTT PARK
OVERSIGHT AGENCY: U.S. DEPARTMENT OF EDUCATION**

Hamilton Community Schools respectfully submits the following corrective action plan for the year ended June 30, 2015.

Auditor: Maner Costerisan
2425 E. Grand River Avenue, Suite 1
Lansing, Michigan 48912

Audit Period: Year ended June 30, 2015

The findings from the June 30, 2015 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the number assigned in the schedule.

Finding - Federal Awards

Finding 2015-001

Recommendation: We recommend that the District implement requirements discussed in the criteria section when utilizing the official approval option, and pay careful attention to the income limitations.

Action to be taken: The District will strive to improve controls and to ensure that students receiving free or reduced meal benefits are properly approved and meet all required criteria.

**HAMILTON COMMUNITY SCHOOLS
SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2015**

There were no findings required to be reported in the prior year.

October 26, 2015

To the Board of Education
Hamilton Community Schools

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

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

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

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

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

Planned Scope and Timing of the Audit

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

Significant Audit Findings

1. Qualitative Aspects of Accounting Practices

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

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

Estimates have been used to calculate the net pension liability.

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

Management's estimated lives of capital assets. We evaluated the key factors and assumptions used to develop the estimated life span of the capital assets in determining that it is a reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There are no sensitive disclosures affecting the financial statements.

2. Difficulties Encountered in Performing the Audit

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

3. *Corrected and Uncorrected Misstatements*

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

4. *Disagreements with Management*

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

5. *Management Representations*

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

6. *Management Consultations with Other Independent Accountants*

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

7. *Other Audit Findings or Issues*

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

8. *Other Matters*

We applied certain limited procedures to the required supplementary information (RSI) which are required and supplement the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

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

A separate management letter was not issued.

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

Very truly yours,

Maney Costeiran PC