HAMILTON COMMUNITY SCHOOLS

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

YEAR ENDED JUNE 30, 2016

Maner Costerisan
Certified Public Accountants
Business & Technology Advisors

C O N T E N T S

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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, 2016, 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, 2016, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other 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, including the schedule of expenditures of federal awards as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 September 26, 2016 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.

Maner Costerisan PC

September 26, 2016

Hamilton Community Schools
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016

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, 2016. Please read it in conjunction with the District's financial statements which immediately follow this section. A comparative analysis with the prior year has been provided.

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.

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 was more on June 30, 2016 than the year before, increasing from ($12,438,809) to ($12,025,308).

Hamilton Community Schools

	2016	2015
Current assets and other assets	$ 24,844,155	$ 8,568,193
Capital assets	39,772,393	41,392,037
Total assets	64,616,548	49,960,230
Deferred outflows of resources	5,339,975	4,524,202
Long-term liabilities outstanding	38,691,013	25,150,561
Net pension liability	38,553,896	34,494,548
Other liabilities	3,556,888	3,464,746
Total liabilities	80,801,797	63,109,855
Deferred inflows of resources	1,180,034	3,813,386
Net position:		
Net investment in capital assets	18,779,596	17,905,311
Restricted for debt service	91,491	180,772
Restricted for capital projects	38,350	38,350
Unrestricted	(30,934,745)	(30,563,242)
Total net position	$ (12,025,308)	$ (12,438,809)

Analysis of Net Position

During the fiscal year ended June 30, 2016, the District's net position increased by $413,501. A few of the more significant factors affecting net position during the year are discussed below:

- Cash Equivalents, Deposits and Investments

  At June 30, 2016, the District's cash equivalents, deposits and investments amounted to $20.87 million (including fiduciary funds). This represented an increase of $16.2 million over the previous year, primarily as a result of the issuance of the 2016 building and site bond.

- Capital Outlay Acquisitions

  For the fiscal year ended June 30, 2016, $166 thousand 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 $1.6 million for the fiscal year ended June 30, 2016.

- 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, 2016, the District's bonded debt increased by $13.5 million as a result of repayment of bonded debt issued in prior years and the issuance of the 2016 building and site bond.

- Accumulated Compensated Absences and Termination Benefits

  At June 30, 2016, 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 $870,626.

Hamilton Community Schools
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016

Results of Operations

For the fiscal years ended June 30, 2016 and 2015, the results of operations, on a District-wide basis, were:

Changes in Hamilton Community Schools' Net Position

	Fiscal year ended June 30, 2016		Fiscal year ended June 30, 2015	
	Amount	%	Amount	%
Revenues:				
Program revenues:				
Charges for services	$ 495,142	1.66%	$ 492,238	1.64%
Operating grants	6,630,306	22.27%	6,487,494	21.70%
General revenues:				
Property taxes	6,287,174	21.12%	6,385,375	21.36%
Investment	9,160	0.03%	24,277	0.08%
State aid - unrestricted	16,121,398	54.16%	16,161,981	54.06%
Other	225,238	0.76%	346,488	1.16%
Total revenues	29,768,418	100.00%	29,897,853	100.00%
Expenses:				
Instruction	16,861,400	57.43%	16,446,414	55.26%
Support services	8,679,092	29.57%	9,190,752	30.88%
Community services	217,161	0.74%	195,926	0.66%
Food services	885,302	3.02%	879,005	2.95%
Interest on long-term debt	926,393	3.16%	1,228,824	4.13%
Unallocated depreciation	1,785,569	6.08%	1,818,940	6.12%
Total expenses	29,354,917	100.00%	29,759,861	100.00%
Change in net position	$ 413,501		$ 137,992	

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 2015 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, 2016, there were no significant unpaid property taxes.

- State Sources

  The majority of the unrestricted state sources of revenues is comprised of the per student foundation allowance. The State of Michigan funds school districts based on a blended student enrollment which is calculated using 90% of the current fiscal year's fall count (October) and 10% of the prior fiscal year's spring count (February). For the 2015-2016 fiscal year, the District received $7,391 per student full time equivalent. The student foundation allowance amount increased by $265 when compared to the 2014-2015 fiscal year.

- Operating Grants

  The District receives a significant portion of its operating revenue from categorical grants. For the fiscal year ended June 30, 2016, federal, state, and other grants amounted to $6.6 million This represents no significant change over the prior year.

Comparative Expenditures

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

Expenditures	2015 - 2016	2014 - 2015	Increase (decrease)
Instruction	$ 17,168,618	$ 16,378,622	$ 789,996
Supporting services	8,762,759	8,828,235	(65,476)
Food service activities	893,804	869,946	23,858
Community service activities	221,162	199,530	21,632
Capital outlay	75,150	125,096	(49,946)
Debt service	3,772,335	3,755,753	16,582
Total expenditures	$ 30,893,828	$ 30,157,182	$ 736,646

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, 2016.

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, 2016.

	Original budget	Final budget	Actual	Final variance with budget	% variance
Total revenues	$ 25,461,400	$ 26,404,300	$ 26,353,581	$ (50,719)	-0.19%
Expenditures:					
Instruction	$ 16,494,400	$ 17,238,800	$ 17,168,618	$ 70,182	0.41%
Supporting services	9,126,600	8,792,400	8,762,759	29,641	0.34%
Community services	205,100	220,400	221,162	(762)	-0.35%
Total expenditures	$ 25,826,100	$ 26,251,600	$ 26,152,539	$ 99,061	0.38%
Other financing sources (uses)	$ 25,000	$ 10,000	$ 10,000	$ -	0.00%

The original budget adopted by the Board in June 2015 was amended twice during the year. The amendments, approved in February and June 2016, reflected necessary changes to both revenues and expenditures based on projections made by the Chief Financial Officer.

Capital Assets

By the end of the 2015-2016 fiscal year, the District had invested approximately $64.8 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 $25.0 million as of June 30, 2016. This represents a net increase of $1.8 million over the prior fiscal year.

Hamilton Community Schools

	2016			2015
	Cost	Accumulated depreciation	Net book value	Net book value
Land	$ 2,169,583	$ -	$ 2,169,583	$ 2,169,583
Construction in progress	75,000	-	75,000	-
Buildings and improvements	56,791,613	20,317,326	36,474,287	37,924,450
Furniture and fixtures	2,641,337	2,401,671	239,666	292,957
Vehicles	2,913,987	2,217,103	696,884	879,718
Transportation equipment	208,879	91,906	116,973	125,329
Total	$ 64,800,399	$ 25,028,006	$ 39,772,393	$ 41,392,037

Long-term Debt

At June 30, 2016, the District had approximately $38.7 million in long-term obligations which included $37.8 million in outstanding bonded debt. The bonded debt obligation increased during the year as $2.8 million of previously outstanding bonds were redeemed and $16.3 million of new bonds were issued. In addition to the bonded debt, the District has obligation for compensated absences estimated at roughly $871,000 at the end of the fiscal year.

Hamilton Community Schools
Outstanding Long-Term Debt

	2016	2015
General obligation bonds and other debt	$ 37,820,387	$ 24,301,642
Compensated absences and termination benefits	870,626	848,919
	$ 38,691,013	$ 25,150,561

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 increase 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 May, 2016, voters approved a $22.7 million bond proposal focusing on safety and security, educational technology and building and site improvements. $16.2 million of approved bond was issued during June of 2016. Proceeds from the bond issue will be spent gradually over the next six years to provide for the continuing needs of the district.

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, 2016

	Governmental activities
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	$ 3,988,893
Investments	47,337
Receivables:	
Accounts receivable	6,321
Intergovernmental	4,261,889
Prepaids	18,734
Inventories	8,505
Restricted cash and cash equivalents - capital projects	16,512,476
Capital assets not being depreciated	2,244,583
Capital assets, net of accumulated depreciation	37,527,810
TOTAL ASSETS	64,616,548
DEFERRED OUTFLOWS OF RESOURCES:	
Deferred charge on refunding	654,198
Related to pensions	4,685,777
TOTAL DEFERRED OUTFLOWS OF RESOURCES	5,339,975
LIABILITIES:	
Accounts payable	374,425
Accrued interest	184,143
Accrued salaries and related items	2,238,287
Accrued retirement	723,890
Unearned revenue	36,143
Noncurrent liabilities:	
Due within one year	2,305,594
Due in more than one year	36,385,419
Net pension liability	38,553,896
TOTAL LIABILITIES	80,801,797
DEFERRED INFLOWS OF RESOURCES:	
Related to pensions	127,701
Related to state aid funding for pension	1,052,333
TOTAL DEFERRED INFLOWS OF RESOURCES	1,180,034
NET POSITION:	
Net investment in capital assets	18,779,596
Restricted for debt service	91,491
Restricted for capital projects	38,350
Unrestricted	(30,934,745)
TOTAL NET POSITION	$ (12,025,308)

See notes to financial statements.

HAMILTON COMMUNITY SCHOOLS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016

		Program revenues		Governmental activities
Functions/programs	**Expenses**	**Charges for services**	**Operating grants**	**Net (expense) revenue and changes in net position**
Governmental activities:				
Instruction	$ 16,861,400	$ 46,251	$ 4,883,169	$ (11,931,980)
Support services	8,679,092	-	1,300,845	(7,378,247)
Community services	217,161	-	-	(217,161)
Food services	885,302	448,891	446,292	9,881
Interest on long-term debt	926,393	-	-	(926,393)
Unallocated depreciation	1,785,569	-	-	(1,785,569)
Total governmental activities	$ 29,354,917	$ 495,142	$ 6,630,306	(22,229,469)
General revenues:				
Property taxes, levied for general purposes				2,718,906
Property taxes, levied for debt service				3,568,268
Investment earnings				9,160
State sources - unrestricted				16,121,398
Other				225,238
Total general revenues				22,642,970
CHANGE IN NET POSITION				413,501
NET POSITION, beginning of year				(12,438,809)
NET POSITION, end of year				$ (12,025,308)

See notes to financial statements.

HAMILTON COMMUNITY SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016

	General Fund	2016 building and site bonds	2015 debt refunding	Total nonmajor funds	Total governmental funds
ASSETS					
ASSETS:					
Cash and cash equivalents	$ 3,671,539	$ -	$ 241,980	$ 75,374	$ 3,988,893
Investments	47,337	-	-	-	47,337
Receivables:					
Accounts receivable	3,509	-	-	2,812	6,321
Intergovernmental	4,218,802	-	-	43,087	4,261,889
Prepaid expenditures	18,734	-	-	-	18,734
Inventories	-	-	-	8,505	8,505
Restricted cash and cash equivalents	-	16,201,221	-	311,255	16,512,476
TOTAL ASSETS	$ 7,959,921	$ 16,201,221	$ 241,980	$ 441,033	$ 24,844,155
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Accounts payable	$ 238,634	$ 130,487	$ -	$ 5,304	$ 374,425
Accrued salaries and related items	2,238,287	-	-	-	2,238,287
Accrued retirement	723,890	-	-	-	723,890
Unearned revenue	14,248	-	-	21,895	36,143
TOTAL LIABILITIES	3,215,059	130,487	-	27,199	3,372,745
FUND BALANCES:					
Nonspendable:					
Inventories	-	-	-	8,505	8,505
Prepaid items	18,734	-	-	-	18,734

See notes to financial statements.

	General Fund	2016 building and site bonds	2015 debt refunding	Total nonmajor funds	Total governmental funds
FUND BALANCES:					
Restricted for:					
Capital projects	$ -	$ 16,070,734	$ -	$ 141,008	$ 16,211,742
Food service	-	-	-	60,420	60,420
Debt service	-	-	241,980	33,654	275,634
Committed:					
Equipment and maintenance projects (EMP)	815,492	-	-	-	815,492
Capital projects	-	-	-	170,247	170,247
Assigned for:					
Compensated absences	870,626	-	-	-	870,626
Unassigned:					
General fund	3,040,010	-	-	-	3,040,010
TOTAL FUND BALANCES	4,744,862	16,070,734	241,980	413,834	21,471,410
TOTAL LIABILITIES AND FUND BALANCES	$ 7,959,921	$ 16,201,221	$ 241,980	$ 441,033	$ 24,844,155

Total governmental fund balances		$ 21,471,410
Amounts reported for governmental activities in the statement of net position are different because:		
Deferred charge on refunding, net of amortization	$ 654,198	
Deferred inflows of resources - related to state pension funding	(1,052,333)	
Deferred outflows of resources - related to pensions	4,685,777	
Deferred inflows of resources - related to pensions	(127,701)	
		4,159,941
Capital assets used in governmental activities are not financial resources and are not reported in the funds		
The cost of the capital assets is	64,800,399	
Accumulated depreciation is	(25,028,006)	
		39,772,393
Long-term liabilities are not due and payable in the current period and are not reported in the funds:		
Bonds payable		(37,820,387)
Compensated absences and termination benefits		(870,626)
Accrued interest is not included as a liability in governmental funds, it is recorded when paid		(184,143)
Net pension liability		(38,553,896)
Net position of governmental activities		$ (12,025,308)

See notes to financial statements.

HAMILTON COMMUNITY SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2016

	General Fund	2016 building and site bonds	2015 debt refunding	Total nonmajor funds	Total governmental funds
REVENUES:					
Local sources:					
Property taxes	$ 2,718,906	$ -	$ 3,282,662	$ 285,606	$ 6,287,174
Tuition	65,596	-	-	-	65,596
Food sales	-	-	-	448,891	448,891
Investment earnings	5,441	-	3,333	386	9,160
Other	205,893	-	-	-	205,893
Total local sources	2,995,836	-	3,285,995	734,883	7,016,714
State sources	20,450,888	-	-	80,016	20,530,904
Federal sources	712,848	-	-	366,276	1,079,124
Intermediate school districts	2,194,009	-	-	-	2,194,009
Total revenues	26,353,581	-	3,285,995	1,181,175	30,820,751
EXPENDITURES:					
Current:					
Instruction	17,168,618	-	-	-	17,168,618
Supporting services	8,762,759	-	-	-	8,762,759
Food service activities	-	-	-	893,804	893,804
Community service activities	221,162	-	-	-	221,162

See notes to financial statements.

	General Fund	2016 building and site bonds	2015 debt refunding	Total nonmajor funds	Total governmental funds
EXPENDITURES (Concluded):					
Debt service:					
Principal repayment	$ -	$ -	$ 2,725,000	$ -	$ 2,725,000
Interest	-	-	591,317	264,600	855,917
Bond issuance costs	-	181,639	8,576	-	190,215
Other	-	-	-	1,203	1,203
Capital outlay	-	75,000	-	150	75,150
Total expenditures	26,152,539	256,639	3,324,893	1,159,757	30,893,828
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	201,042	(256,639)	(38,898)	21,418	(73,077)
OTHER FINANCING SOURCES (USES):					
Proceeds from issuance of bonds	-	16,195,000	-	-	16,195,000
Premium on issuance of bonds	-	132,373	-	-	132,373
Transfers in	10,000	-	-	-	10,000
Transfers out	-	-	-	(10,000)	(10,000)
Total other financing sources (uses)	10,000	16,327,373	-	(10,000)	16,327,373
NET CHANGE IN FUND BALANCES	211,042	16,070,734	(38,898)	11,418	16,254,296
FUND BALANCES:					
Beginning of year	4,533,820	-	280,878	402,416	5,217,114
End of year	$ 4,744,862	$ 16,070,734	$ 241,980	$ 413,834	$ 21,471,410

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, 2016

Net change in fund balances total governmental funds	$ 16,254,296
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	(1,785,569)
Capital outlay	166,425
Book value of capital assets being disposed	(500)
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	113,667
Accrued interest payable, end of the year	(184,143)
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 in the treatment of long-term debt and related items are as follows:	
Payments on bonded debt	2,725,000
Proceeds from issuance of bonds	(16,195,000)
Premium on issuance of bonds	(132,373)
Amortization of deferred loss on refunding	(58,004)
Amortization of bond premium	83,628
Compensated absences are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds:	
Accrued compensated absences and termination benefits, beginning of the year	848,919
Accrued compensated absences and termination benefits, end of the year	(870,626)
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	500,114
Restricted revenue reported in the governmental funds that is deferred to offset the deferred outflows related to section 147c pension contributions subsequent to the measurement period.	
State aid funding for pension	(1,052,333)
Change in net position of governmental activities	$ 413,501

See notes to financial statements.

HAMILTON COMMUNITY SCHOOLS
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2016

	Agency fund	Private Purpose Trust Fund
ASSETS:		
Cash and cash equivalents	$ 267,034	$ 52,545
	267,034	52,545
LIABILITIES:		
Accounts payable	12,202	-
Due to student and other groups	254,832	-
	267,034	-
NET POSITION:		
Restricted for trust activities	$ -	$ 52,545

See notes to financial statements.

HAMILTON COMMUNITY SCHOOLS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED JUNE 30, 2016

	Private Purpose Trust Fund
ADDITIONS:	
Interest earnings	$ 330
CHANGE IN NET POSITION	330
NET POSITION:	
Beginning of year	52,215
End of year	$ 52,545

See notes to financial statements.

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.

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 *2016 building and site fund* accounts for the proceeds of certain bonds payable that are restricted to expenditure for capital outlays for voter-approved purposes.

The *2015 debt service fund* accounts for the resources accumulated and payments made for principal and interest on the 2015 long-term general obligation debt.

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.

Beginning with the year of bond issuance, the District has reported the annual construction activity in the 2010 school building and site and 2016 building and site funds. The projects for the 2010 bonds were issued were considered complete as of June 30, 2015. The following is a summary of the cumulative revenue and expenditures for the capital projects funds' activities:

	Capital projects	
	2010 school building and site	2016 building and site
Revenue and other financing sources	$ 18,791,092	$ 16,327,373
Expenditures	$ 18,688,434	$ 256,639

Other non-major funds

The *special revenue fund*s 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, 2010 school 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. The District has one non-major debt service fund.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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).

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Measurement Focus and Basis of Accounting (Concluded)

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.

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2016. The District does not consider these amendments to be significant.

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.

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 (MPSERS) and additions to/deductions from MPSERS fiduciary net position have been determined on the same basis as they are reported by MPSERS. 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.

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 two items that qualify for reporting in this category. The first 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. The second is restricted section 147c state aid deferred to offset deferred outflows related to section 147c pension contributions subsequent to the measurement period.

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.

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.

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, 2016:

Fund Balance, July 1, 2015	$ 1,046,417
EMP expenditures	(230,925)
Fund Balance, June 30, 2016	$ 815,492

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

H. Revenues and Expenditures/Expenses (Concluded)

2. Property taxes (Concluded)

For the year ended June 30, 2016, 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.

NOTE 2 - DEPOSITS AND INVESTMENTS

As of June 30, 2016, the District had the following investments:

Investment Type		Fair value	Weighted average maturity (years)	Rating	%
MILAF - Cash Management	$	47,325	0.0027	AAAm	100.0%
MILAF - MAX Class		12	0.0027	AAAm	0.0%
Total fair value	$	47,337			100.00%
Portfolio weighted average maturity			0.0027		

1 day maturity equals 0.0027, one year equals 1.00

MILAF funds are considered external investment pools as defined by the GASB and as such are recorded at amortized cost which approximate fair value. The MILAF (MAX Class) fund requires notification of redemptions prior to 14 days to avoid penalties. These funds are not subject to the fair value disclosures.

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, 2016, 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, 2016, $20,403,300 of the District's bank balance of $20,923,350 was exposed to custodial credit risk because it was uninsured and uncollateralized. The carrying amount is $20,820,948.

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.

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

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.

Fair value measurement. The District is required to disclose amounts within a framework established for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1: Quoted prices in active markets for identical securities.

Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include prices for similar securities, interest rates, prepayment speeds, credit risk and others.

Level 3: Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant, unobservable inputs may be used. Unobservable inputs reflect the District's own assumptions about the factors market participants would use in pricing an investment and would be based on the best information available.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The District does not have any investments subject to the fair value measurement.

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

At June 30, 2016, the carrying amount is as follows:

Deposits - including fiduciary funds of $319,579	$ 20,820,948
Investments	47,337
	$ 20,868,285

NOTE 2 - DEPOSITS AND INVESTMENTS (Concluded)

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

Fiduciary fund:	
Cash and cash equivalents	$ 319,579
District wide:	
Current assets:	
Cash and cash equivalents	3,988,893
Investments	47,337
Restricted cash and cash equivalents - capital projects	16,512,476
	$ 20,868,285

NOTE 3 - CAPITAL ASSETS

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

	Balance July 1, 2015	Additions	Deletions/ reclassification	Balance June 30, 2016
Assets not being depreciated:				
Land	$ 2,169,583	$ -	$ -	$ 2,169,583
Construction in progress	-	75,000	-	75,000
Subtotal	2,169,583	75,000	-	2,244,583
Other capital assets:				
Building and improvements	56,771,785	19,828	-	56,791,613
Furniture and equipment	2,591,234	50,103	-	2,641,337
Vehicles	2,901,995	21,494	9,502	2,913,987
Infrastructure	208,879	-	-	208,879
Subtotal	62,473,893	91,425	9,502	62,555,816
Accumulated depreciation:				
Building and improvements	18,847,335	1,469,991	-	20,317,326
Furniture and equipment	2,298,277	103,394	-	2,401,671
Vehicles	2,022,277	203,828	9,002	2,217,103
Infrastructure	83,550	8,356	-	91,906
Total accumulated depreciation	23,251,439	1,785,569	9,002	25,028,006
Net capital assets being depreciated	39,222,454	(1,694,144)	500	37,527,810
Net governmental capital assets	$ 41,392,037	$ (1,619,144)	$ 500	$ 39,772,393

Depreciation expense for the fiscal year ended June 30, 2016 amounted to $1,785,569. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

NOTE 4 - INTERGOVERNMENTAL RECEIVABLES

Intergovernmental receivables at June 30, 2016 consist of the following:

	Governmental funds
Other governmental units:	
State aid	$ 3,717,310
Federal revenue	209,215
ISD and other	335,364
	$ 4,261,889

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, 2016:

	General obligation bonds	Compensated absences and termination benefits	Total
Balance July 1, 2015	$ 24,301,642	$ 848,919	$ 25,150,561
Additions	16,327,373	21,707	16,349,080
Deletions	(2,808,628)	-	(2,808,628)
Balance June 30, 2016	37,820,387	870,626	38,691,013
Total due within one year	2,175,000	130,594	2,305,594
Total due in more than one year	$ 35,645,387	$ 740,032	$ 36,385,419

NOTE 5 - LONG-TERM DEBT (Concluded)

Bonds payable at June 30, 2016 is comprised of the following issues:

2008 refunding bonds, due in annual installments of $1,560,000 to $1,745,000 through May 1, 2023 with interest from 3.25% to 4.00%.	$ 6,615,000
2015 refunding bonds, due in annual installments of $465,000 to $1,950,000 through May 1, 2030 with interest from 3.00% to 5.00%.	13,795,000
2016 building and site bonds, due in annual installments of $100,000 to $705,000 through May 1, 2046 with interest from 2.00% to 3.125%.	16,195,000
Plus: premium on bond refunding	1,215,387
Total bonded debt and other long-term obligations	37,820,387
Compensated absences and termination benefits	870,626
Total general long-term debt	$ 38,691,013

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, 2016, $29,955,000 bonds outstanding are considered defeased.

The annual requirements to amortize debt outstanding as of June 30, 2016, including interest payments of $14,224,259 are as follows:

Year ending June 30,	Principal	Interest	Total
2017	$ 2,175,000	$ 1,182,145	$ 3,357,145
2018	2,210,000	1,179,932	3,389,932
2019	730,000	1,096,732	1,826,732
2020	2,140,000	1,077,982	3,217,982
2021	2,225,000	999,182	3,224,182
2022 - 2026	9,770,000	3,774,710	13,544,710
2027 - 2031	6,810,000	2,317,760	9,127,760
2032 - 2036	3,525,000	1,396,410	4,921,410
2037 - 2041	3,520,000	871,278	4,391,278
2042 - 2046	3,500,000	328,128	3,828,128
	36,605,000	14,224,259	50,829,259
Premium on bond refunding	1,215,387	-	1,215,387
Compensated absences and termination benefits	870,626	-	870,626
	$ 38,691,013	$ 14,224,259	$ 52,915,272

NOTE 6 - 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/mpsers-cafr.

Benefits Provided

Participants are enrolled in one of multiple plans based on date of hire and certain voluntary elections. A summary of the pension plans offered by MPSERS is as follows:

Plan name	Plan Type	Plan status
Basic	Defined Benefit	Closed
Member Investment Plan (MIP)	Defined Benefit	Closed
Pension Plus	Hybrid	Open
Defined Contribution	Defined Contribution	Open

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.

Prior to Pension reform of 2010 there were two plans commonly referred to as Basic and the Member Investment Plan (MIP). Basic Plan member's contributions range from 0% - 4%. On January 1, 1987, the Member Investment Plan (MIP) was enacted. MIP members enrolled prior to January 1, 1990, contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990, or later including Pension Plus Plan members, contribute at various graduated permanently fixed contribution rates from 3.0% - 7.0%.

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.

NOTE 6 - DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

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. Members who elected under option 1 to increase their level of contribution contribute 4% (Basic Plan) or 7% (MIP).

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). As a DC participant they receive a 4% employer contribution to a tax - deferred 401(k) account and can choose to contribute up to the maximum amounts permitted by the IRS.

Employees who first work on or after September 4, 2012 choose between two retirement plans: the Pension Plus plan and a Defined Contribution that provides a 50% employer match up to 3% of salary on employee contributions.

NOTE 6 - DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

Final Average Compensation (FAC) - 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

Depending on the plan selected, member contributions range from 0% - 7%. Plan members electing the defined contribution plan are not required to make additional contributions.

Employer Contributions

Reporting units are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of members and retiree Other Post-Employment Benefits (OPEB). Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

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

School districts' contributions are determined based on employee elections. There are several different benefit options included in the plan available to employees based on date of hire. Contribution rates are adjusted annually by the ORS. The range of rates is as follows:

March 10, 2015 - September 30, 2015	18.76% - 23.07%
October 1, 2015 - September 30, 2016	14.56% - 18.95%

The District’s pension contributions for the year ended June 30, 2016 were equal to the required contribution total. Pension contributions were approximately $3,605,000, with $3,493,000 specifically for the Defined Benefit Plan. These amounts include contributions funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate (69.45% for pension and 30.55% for OPEB).

NOTE 6 - DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

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

Pension Liabilities

At June 30, 2016, the District reported a liability of $38,553,896 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2014 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, 2015 and 2014, the District's proportion was .1579 and .1566 percent.

MPSERS (Plan) Non-university employers:	September 30, 2015	September 30, 2014
Total Pension Liability	$ 66,312,041,902	$ 65,160,887,182
Plan Fiduciary Net Position	$ 41,887,015,147	$ 43,134,384,072
Net Pension Liability	$ 24,425,026,755	$ 22,026,503,110
Proportionate share	0.1579%	0.1566%
Net Pension Liability for the District	$ 38,553,896	$ 34,494,548

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

For the year ended June 30, 2016, the District recognized pension expense of $1,940,180. This amount excludes contributions funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate. These amounts have been recorded as a deferred outflow as of June 30, 2016.

NOTE 6 - DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

At June 30, 2016, the Reporting Unit reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred outflows of resources	Deferred inflows of resources
Changes of assumptions	$ 949,276	$ -
Changes in proportion and differences between employer contributions and proportionate share of contributions	306,376	-
Net difference between projected and actual plan investment earnings	196,786	-
Differences between expected and actual experience	-	127,701
Reporting Unit's contributions subsequent to the measurement date	3,233,339	-
	$ 4,685,777	$ 127,701

$3,233,339, 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 September 30,	Amount
2017	$ 190,640
2018	190,640
2019	139,168
2020	804,289

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 - RP2000 Combined Healthy Life Mortality table, adjusted for mortality improvements to 2020 using projection scale AA for men and women were used.

NOTE 6 - DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

Experience study - The annual actuarial valuation report of the System used for these statements is dated September 30, 2014. Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation.

The 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.

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

Investment category	Target allocation	Long-term expected real rate of return*
Domestic Equity Pools	28.00%	5.90%
Alternate Investment Pools	18.00	9.20%
International Equity	16.00	7.20%
Fixed Income Pools	10.50	0.90%
Real Estate and Infrastructure Pools	10.00	4.30%
Absolute Return Pools	15.50	6.00%
Short Term Investment Pools	2.00	0.00%
	100.00%	

* Long term rate of return does not include 2.1% 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.

NOTE 6 - DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

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 (7% for Pension Plus Plan), as well as what the Reporting Unit's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1% Lower (6.0% - 7.0%)	Discount Rate (7.0% - 8.0%)	1% Higher (8.0% - 9.0%)
Reporting Unit's proportionate share of the net pension liability	$ 49,705,726	$ 38,553,896	$ 29,152,262

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 2015 Comprehensive Annual Financial Report.

Payable to the Pension Plan - At year end the School District is current on all required pension plan payments. Amounts accrued at year end for accounting purposes are separately stated in the financial statements as a liability titled accrued retirement. These amounts represent current payments for June paid in July, accruals for summer pay primarily for teachers and the contributions due funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate.

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.

NOTE 6 - DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Concluded)

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.

Employer Contributions

The employer contribution rate ranged from 5.52% - 6.45% of covered payroll for the period October 1, 2013 to March 9, 2015, 2.2% to 2.71% of covered payroll for the period from March 10, 2015 to September 30, 2015, and from 6.4% to 6.83% of covered payroll for the period from October 1, 2015 through June 30, 2016 dependent upon the employee's date of hire and plan election.

The District postemployment healthcare contributions to MPSERS for the years ended June 30, 2016, 2015 and 2014 were approximately $1,374,000, $1,715,000 and $858,000.

NOTE 7 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The District purchases commercial insurance to cover any losses that may result from the above described activities. No settlements have occurred in excess of coverage for the year ended June 30, 2016.

NOTE 8 - TRANSFERS

The food service fund transferred $10,000 to the general fund. The transfer from the food service fund was made to allocate indirect costs.

NOTE 9 - 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 10 - UPCOMING ACCOUNTING PRONOUNCEMENTS

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.

Governmental Accounting Standards Board (GASB) Statement No. 77, *Tax Abatement Disclosures*, was issued by the GASB in August 2015 and will be effective for the District's 2017 year end. The Statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements in the footnotes of the financial statements:

- ➢ Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatements recipients.

NOTE 10 - UPCOMING ACCOUNTING PRONOUNCEMENTS (Concluded)

- The gross dollar amount of taxes abated during the period
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement

This Statement will improve the user's ability on how tax abatements affect the reporting unit's financial positions and results of operations, including their ability to raise resources in the future.

REQUIRED SUPPLEMENTARY INFORMATION

HAMILTON COMMUNITY SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2016

	Original budget	Final budget	Actual	Variance with final budget
REVENUES:				
Local sources	$ 3,225,900	$ 3,012,400	$ 2,995,836	$ (16,564)
State sources	19,358,400	20,453,800	20,450,888	(2,912)
Federal sources	692,000	737,800	712,848	(24,952)
Intermediate school districts	2,185,100	2,200,300	2,194,009	(6,291)
Total revenues	25,461,400	26,404,300	26,353,581	(50,719)
EXPENDITURES:				
Current:				
Instruction:				
Basic programs	13,663,800	14,343,800	14,318,157	25,643
Added needs	2,830,600	2,895,000	2,850,461	44,539
Total instruction	16,494,400	17,238,800	17,168,618	70,182
Supporting services:				
Pupil	1,202,900	1,273,700	1,257,540	16,160
Instructional staff	1,008,700	810,000	846,535	(36,535)
General administration	356,400	351,800	345,306	6,494
School administration	1,652,900	1,618,400	1,631,290	(12,890)
Business	401,300	397,200	368,083	29,117
Operations and maintenance	2,415,400	2,297,300	2,249,163	48,137
Pupil transportation	1,343,700	1,297,400	1,333,740	(36,340)
Central	61,800	93,700	94,574	(874)
Athletics	683,500	652,900	636,528	16,372
Total supporting services	9,126,600	8,792,400	8,762,759	29,641
Community services	205,100	220,400	221,162	(762)
Total expenditures	25,826,100	26,251,600	26,152,539	99,061
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(364,700)	152,700	201,042	48,342
OTHER FINANCING SOURCES (USES):				
Transfers in	25,000	10,000	10,000	-
Total other financing sources (uses)	25,000	10,000	10,000	-
NET CHANGE IN FUND BALANCE	$ (339,700)	$ 162,700	211,042	$ 48,342
FUND BALANCE:				
Beginning of year			4,533,820	
End of year			$ 4,744,862	

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)

	2015	2014
Reporting unit's proportion of net pension liability (%)	0.15785%	0.15660%
Reporting unit's proportionate share of net pension liability	$ 38,553,896	$ 34,494,548
Reporting unit's covered-employee payroll	$ 13,176,797	$ 13,315,468
Reporting unit's proportionate share of net pension liability as a percentage of its covered-employee payroll	292.59%	259.06%
Plan fiduciary net position as a percentage of total pension liability	63.17%	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)

	2016	2015
Statutorily required contributions	$ 3,492,627	$ 2,960,149
Contributions in relation to statutorily required contributions	3,492,627	2,960,149
Contribution deficiency (excess)	$ -	$ -
Reporting unit's covered-employee payroll	$ 13,341,334	$ 13,221,971
Contributions as a percentage of covered-employee payroll	26.18%	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 in 2015.

Changes of assumptions: There were no changes of benefit assumptions in 2015.

ADDITIONAL SUPPLEMENTARY INFORMATION

HAMILTON COMMUNITY SCHOOLS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND TYPES
JUNE 30, 2016

	Special revenue	Capital project funds			Debt service fund	
	Food Service	**Building and Site**	**2010 school building and site**	**1998 Durant**	**2008 Refunding**	**Total nonmajor funds**
ASSETS:						
Cash and cash equivalents	$ 41,720	$ -	$ -	$ -	$ 33,654	$ 75,374
Receivables:						
Accounts receivable	2,812	-	-	-	-	2,812
Intergovernmental	43,087	-	-	-	-	43,087
Inventories	8,505	-	-	-	-	8,505
Restricted cash and cash equivalents	-	170,247	102,658	38,350	-	311,255
TOTAL ASSETS	$ 96,124	$ 170,247	$ 102,658	$ 38,350	$ 33,654	$ 441,033
LIABILITIES:						
Accounts payable	$ 5,304	$ -	$ -	$ -	$ -	$ 5,304
Unearned revenue	21,895	-	-	-	-	21,895
TOTAL LIABILITIES	27,199	-	-	-	-	27,199
FUND BALANCES:						
Nonspendable for inventories	8,505	-	-	-	-	8,505
Restricted for:						
Debt service	-	-	-	-	33,654	33,654
Food service	60,420	-	-	-	-	60,420
Capital projects	-	-	102,658	38,350	-	141,008
Committed for capital projects	-	170,247	-	-	-	170,247
TOTAL FUND BALANCES	68,925	170,247	102,658	38,350	33,654	413,834
TOTAL LIABILITIES AND FUND BALANCES	$ 96,124	$ 170,247	$ 102,658	$ 38,350	$ 33,654	$ 441,033

HAMILTON COMMUNITY SCHOOLS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUND TYPES
YEAR ENDED JUNE 30, 2016

	Special revenue fund	Capital project funds			Debt service fund	
	Food Service	Building and Site	2010 school building and site	1998 Durant	2008 Refunding	Total nonmajor funds
REVENUES:						
Local sources:						
Property taxes	$ -	$ -	$ -	$ -	$ 285,606	$ 285,606
Food sales	448,891	-	-	-	-	448,891
Investment earnings	2	-	94	-	290	386
State sources	80,016	-	-	-	-	80,016
Federal sources	366,276	-	-	-	-	366,276
Total revenues	895,185	-	94	-	285,896	1,181,175
EXPENDITURES:						
Current:						
Special revenue activities:						
Salaries	278,717	-	-	-	-	278,717
Benefits	134,239	-	-	-	-	134,239
Supplies and materials	455,700	-	-	-	-	455,700
Other expenses	25,148	-	-	-	-	25,148
Debt service:						
Interest	-	-	-	-	264,600	264,600
Other expenses	-	-	-	-	1,203	1,203
Capital outlay	-	-	150	-	-	150
Total expenditures	893,804	-	150	-	265,803	1,159,757
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	1,381	-	(56)	-	20,093	21,418
OTHER FINANCING SOURCES (USES):						
Transfers out	(10,000)	-	-	-	-	(10,000)
Total other financing sources (uses)	(10,000)	-	-	-	-	(10,000)
NET CHANGE IN FUND BALANCES	(8,619)	-	(56)	-	20,093	11,418
FUND BALANCES:						
Beginning of year	77,544	170,247	102,714	38,350	13,561	402,416
End of year	$ 68,925	$ 170,247	$ 102,658	$ 38,350	$ 33,654	$ 413,834

HAMILTON COMMUNITY SCHOOLS
LONG TERM DEBT
BONDED DEBT - PRINCIPAL AND INTEREST REQUIREMENTS
JUNE 30, 2016

2008 Refunding Bonds

Fiscal year June 30,	Interest rate	Principal due May 1,	Interest due May 1	Interest due November 1	Total due annually
2017	3.25%	$ -	$ 132,300	$ 132,300	$ 264,600
2018	3.25%	-	132,300	132,300	264,600
2019	3.25%	-	132,300	132,300	264,600
2020	3.25%	1,560,000	132,300	132,300	1,824,600
2021	4.00%	1,625,000	101,100	101,100	1,827,200
2022	4.00%	1,685,000	68,600	68,600	1,822,200
2023	4.00%	1,745,000	34,900	34,900	1,814,800
Total 2008 bonded debt		$ 6,615,000	$ 733,800	$ 733,800	$ 8,082,600

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, 2016

2015 Refunding Bonds

Fiscal year June 30,	Interest rate	Principal due May 1,	Interest due May 1	Interest due November 1	Total due annually
2017	4.00%	$ 1,875,000	$ 258,550	$ 258,550	$ 2,392,100
2018	4.00%	1,950,000	221,050	221,050	2,392,100
2019	3.00%	465,000	182,050	182,050	829,100
2020	3.00%	480,000	175,075	175,075	830,150
2021	3.00%	500,000	167,875	167,875	835,750
2022	3.00%	525,000	160,375	160,375	845,750
2023	3.00%	1,000,000	152,500	152,500	1,305,000
2024	3.00%	1,000,000	137,500	137,500	1,275,000
2025	3.00%	1,000,000	122,500	122,500	1,245,000
2026	4.00%	1,000,000	107,500	107,500	1,215,000
2027	4.00%	1,000,000	87,500	87,500	1,175,000
2028	4.00%	1,000,000	67,500	67,500	1,135,000
2029	4.50%	1,000,000	47,500	47,500	1,095,000
2030	5.00%	1,000,000	25,000	25,000	1,050,000
Total 2015 bonded debt		$ 13,795,000	$ 1,912,475	$ 1,912,475	$ 17,619,950

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
LONG TERM DEBT
BONDED DEBT - PRINCIPAL AND INTEREST REQUIREMENTS
JUNE 30, 2016

2016 Building and Site Bonds

		Principal due		Interest due		
Fiscal year June 30,	Interest rate	May 1	November 1	May 1	November 1	Total due annually
2017	2.000%	$ 150,000	$ 150,000	$ 238,866	$ 161,579	$ 700,445
2018	2.000%	110,000	150,000	235,866	237,366	733,232
2019	2.000%	115,000	150,000	233,266	234,766	733,032
2020	2.000%	-	100,000	231,116	232,116	563,232
2021	2.000%	-	100,000	230,116	231,116	561,232
2022	3.000%	-	100,000	229,116	230,116	559,232
2023	3.000%	200,000	200,000	226,116	229,116	855,232
2024	3.000%	200,000	200,000	220,116	223,116	843,232
2025	3.000%	240,000	200,000	214,116	217,116	871,232
2026	3.000%	275,000	200,000	207,516	210,516	893,032
2027	3.000%	325,000	200,000	200,391	203,391	928,782
2028	3.000%	325,000	200,000	192,516	195,516	913,032
2029	3.000%	325,000	200,000	184,641	187,641	897,282
2030	3.000%	330,000	200,000	176,766	179,766	886,532
2031	3.000%	605,000	100,000	170,316	171,816	1,047,132
2032	3.000%	605,000	100,000	159,741	161,241	1,025,982
2033	3.000%	605,000	100,000	149,166	150,666	1,004,832
2034	3.000%	605,000	100,000	138,591	140,091	983,682
2035	3.000%	705,000	-	129,516	129,516	964,032
2036	3.000%	705,000	-	118,941	118,941	942,882
2037	3.000%	705,000	-	108,366	108,366	921,732
2038	3.000%	705,000	-	97,791	97,791	900,582
2039	3.000%	705,000	-	87,216	87,216	879,432
2040	3.125%	705,000	-	76,641	76,641	858,282
2041	3.125%	700,000	-	65,625	65,625	831,250
2042	3.125%	700,000	-	54,688	54,688	809,376
2043	3.125%	700,000	-	43,750	43,750	787,500
2044	3.125%	700,000	-	32,813	32,813	765,626
2045	3.125%	700,000	-	21,875	21,875	743,750
2046	3.125%	700,000	-	10,938	10,938	721,876
Total 2016 Building and Site Bonds		$ 13,445,000	$ 2,750,000	$ 4,486,498	$ 4,445,211	$ 25,126,709

The above bonds dated June 7, 2016 were issued for the purpose of erecting, furnishing and equipping an addition to, installing security measures for, remodeling, equipping, and furnishing and refurnishing school buildings; acquiring and installing instructional technology and instructional technology equipment for school buildings; erecting transportation and supporting athletic buildings; purchasing school buses; and preparing, developing and improving playgrounds, play fields, athletic fields and facilities, parking areas and sites and to pay costs of issuance for the bonds. The amount of the original issue was $16,195,000.

HAMILTON COMMUNITY SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016

Federal grantor/pass-through grantor/ program title	Federal CFDA number	Pass-through grantor's number	Approved grant award amount	Accrued revenue July 1, 2015	(Memo only) Prior year expenditures	Current year expenditures	Current year cash receipts	Accrued revenue June 30, 2016
U.S. Department of Agriculture:								
Passed through Michigan Department of Education:								
Child Nutrition Cluster:								
Non-cash assistance (donated foods):								
National School Program - Non-bonus	10.555		$ 54,770	$ -	$ -	$ 54,770	$ 54,770	$ -
National School Lunch Program - Breakfast	10.553	161970	32,097	-	-	32,097	32,097	-
National School Lunch Program - Breakfast		151970	3,139	-	-	3,139	3,139	-
			35,236	-	-	35,236	35,236	-
Cash assistance								
National School Lunch Program - Section 11	10.555	161960	247,463	-	-	247,463	247,463	-
National School Lunch Program - Section 11		151960	28,807	-	-	28,807	28,807	-
			276,270	-	-	276,270	276,270	-
Total Child Nutrition Cluster			366,276	-	-	366,276	366,276	-
Total U.S. Department of Agriculture			366,276	-	-	366,276	366,276	-

The accompanying notes are an integral part of this schedule.

HAMILTON COMMUNITY SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016

Federal grantor/pass-through grantor/ program title	Federal CFDA number	Pass-through grantor's number	Approved grant award amount	Accrued revenue July 1, 2015	(Memo only) Prior year expenditures	Current year expenditures	Current year cash receipts	Accrued revenue June 30, 2016
U.S. Department of Education:								
Passed through Michigan Department of Education:								
Title I:								
E.C.I.A. Title I	84.010	161530-1516	$ 164,207	$ -	$ -	$ 150,638	$ 150,000	$ 638
E.C.I.A. Title I	84.010	151530-1415	171,577	33,933	167,018	-	33,933	-
Total Title I			335,784	33,933	167,018	150,638	183,933	638
Title IIA, Improving Teacher Quality	84.367	160520-1516	67,729	-	-	57,562	57,000	562
Title IIA, Improving Teacher Quality	84.367	150520-1415	96,019	30,591	81,192	-	30,591	-
			163,748	30,591	81,192	57,562	87,591	562
Total passed through Michigan Department of Education			499,532	64,524	248,210	208,200	271,524	1,200
Passed through Ottawa Area Intermediate School District:								
Special Education Cluster:								
IDEA	84.027	160450-1516	482,312	-	-	481,312	280,572	200,740
IDEA	84.027	150450-1415	470,010	182,758	470,010	-	182,758	-
			952,322	182,758	470,010	481,312	463,330	200,740
Pre School Incentive	84.173	160460-1516	16,264	-	-	16,264	8,989	7,275
Pre School Incentive	84.173	150460-1415	19,234	6,239	16,234	-	6,239	-
			35,498	6,239	16,234	16,264	15,228	7,275
Total Special Education Cluster:			987,820	188,997	486,244	497,576	478,558	208,015
McKinney-Vento Homeless	84.196	162320-1516	1,322	-	-	1,322	1,322	-
McKinney-Vento Homeless	84.196	152320-1415	1,686	1,686	1,686	-	1,686	-
Total passed through Ottawa Area Intermediate			3,008	1,686	1,686	1,322	3,008	-
School District			990,828	190,683	487,930	498,898	481,566	208,015

The accompanying notes are an integral part of this schedule.

HAMILTON COMMUNITY SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016

Federal grantor/pass-through grantor/ program title	Federal CFDA number	Pass-through grantor's number	Approved grant award amount	Accrued revenue July 1, 2015	(Memo only) Prior year expenditures	Current year expenditures	Current year cash receipts	Accrued revenue June 30, 2016
U.S. Department of Education (Concluded):								
Passed through Zeeland Public Schools:								
English Language Acquisition	84.365	----	$ 3,771	$ -	$ -	$ 3,771	$ 3,771	$ -
Total U.S. Department of Education			1,494,131	255,207	736,140	710,869	756,861	209,215
U.S. Department of Health and Human Services:								
Passed through Michigan Department of Community Health								
Passed through Ottawa Area Intermediate School District:								
Medicaid - Administrative Outreach Claiming	93.778	----	1,979	-	-	1,979	1,979	-
TOTAL FEDERAL AWARDS			$ 1,862,386	$ 255,207	$ 736,140	$ 1,079,124	$ 1,125,116	$ 209,215

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, 2016

1. Basis of Presentation - The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Hamilton Community Schools under programs of the federal government for the year ended June 30, 2016. The information in this schedule is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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 financial 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 the Uniform Guidance and 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. Hamilton Community Schools has elected to not use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

3. Management has utilized the Cash Management System (CMS) and the Grant Auditor Report in preparing the Schedule of Expenditures of Federal Awards. The District did not pass through any funds.

4. Federal expenditures are reported as revenue in the following funds in the financial statements:

General fund	$ 712,848
Other nonmajor governmental funds	366,276
Total	$ 1,079,124

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INDEPENDENT AUDITOR'S 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*

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, 2016, 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 September 26, 2016.

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.

Maner Costerisan PC

September 26, 2016

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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 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, 2016. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2016.

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 the Uniform Guidance, 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, material weaknesses may exist that have not been identified.

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

Maner Costerisan PC

September 26, 2016

HAMILTON COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: *Unmodified*

Internal control over financial reporting:

- Material weakness(es) identified? ____ Yes __X__ No
- Significant deficiency(ies) identified? ____ Yes __X__ None noted

Noncompliance material to financial statements noted? ____ Yes __X__ No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ____ Yes __X__ No
- Significant deficiency(ies) identified? ____ Yes __X__ None noted

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

Any audit findings that are required to be reported in accordance with Title 2 CFR Section 200.516(a)? ____ Yes __X__ 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 programs: $750,000

Auditee qualified as low-risk auditee? __X__ Yes ____ No

Section II - Financial Statement Findings

None noted

Section III - Federal Award Findings and Questioned Costs

None noted

HAMILTON COMMUNITY SCHOOLS
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2016

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.

Status: The District has addressed and cleared this finding.