

HANCOCK PUBLIC SCHOOLS
REPORT ON FINANCIAL STATEMENTS
(with required supplementary and additional information)
YEAR ENDED JUNE 30, 2016



HANCOCK PUBLIC SCHOOLS

June 30, 2016

ADMINISTRATION

Superintendent..... Monica Healy
High School Principal..... Kipp Beaudoin
Middle School Principal..... Monica Healy
Elementary Principal..... Dan Vaara

BOARD OF EDUCATION

President..... Charles Paoli
Vice President..... Paula Nutini
Treasurer..... Michele Blau
Secretary..... Mary Babcock
Trustee..... Chris Heikkinen
Trustee..... Kevin Kalinec
Trustee..... Steven Lancour

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Hancock Public Schools
Hancock, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hancock Public Schools for the year then 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 Hancock Public Schools as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension requirements on pages 6 through 11 and 38 through 40 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 the District's basic financial statements. The additional information on pages 42 to 44 are presented for purposes of additional analysis and is not a required part of the basic financial statements.

The additional information on pages 42 to 44 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated October 26, 2016 on our consideration of the Hancock Public Schools's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the Hancock Public Schools internal control over financial reporting and compliance.

*Rukkila, Negro and Associates,
Certified Public Accountants, PC*

October 26, 2016

**HANCOCK PUBLIC SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016**

This section of Hancock Public Schools's annual financial report presents management's discussion and analysis of the District's financial performance during the year ended June 30, 2016. Please read it in conjunction with the District's financial statements, which immediately follows this section.

Financial Highlights

The District issued general obligation bonds of \$6,890,000 to advance refund a portion of the 2008 School Building and Site Bonds. The net savings is approximately \$896,000 with an average annual savings of \$52,708.

The overall long-term debt was decreased by \$1,001,892. Total debt at fiscal year end was \$17,192,191

Food Service Fund ended the year with a deficit fund balance of \$109,312. The deficit increased by \$8,665 from the prior year. The District continues to record money transferred from the general fund as a due from the general fund and not an incoming transfer.

Overview of the Financial Statements

The annual report consists of a series of financial statements including other requirements as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.
- The Government-wide Financial Statements consists of a Statement of Net Position and a Statement of Activities. These provide information about the activities of the District as a whole and represent an overall view of the District's finances.

Statement of Net Position and the Statement of Activities

These statements provide information that help determine how the District is doing financially as a result of the year's activities. The statements are shown using a full accrual basis.

The District's net position and the changes in the net position during the year are reported by these two statements. Increases or decreases in the District's net position is one way to determine if the financial position of the District is improving or deteriorating. However, non-financial factors will need to be considered as well to determine the overall financial position of the District.

- The Statement of Fiduciary Assets and Liabilities, presents financial information about activities for which the District acts solely as an agent for the benefit of students and parents.

The District is the trustee, or fiduciary, for its student activity funds. All of the District's fiduciary activities are reported in separate statements of fiduciary assets and liabilities. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Overview of the Financial Statements (Continued)

- Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. These statements also report the District's operations in more detail than the Government-wide Financial Statements by providing information about the most significant funds.

The fund level financial statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the District's major instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including the Debt Service and School Food Service funds.

Major Funds: Under GASB Statement 34, the audit focus has shifted from type of governmental fund to major funds. Major funds are the largest funds in terms of assets, liabilities, revenues or expenses/expenditures. This allows the reader to see more detailed activity of the major funds. For the District, the General Fund and Debt Service Fund meet this requirement.

Non-major Funds: In the basic financial statements, non-major funds are consolidated into one column. These are smaller funds. Detailed information about non-major funds can be found after the notes to the financial statements.

- Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.
- Required supplementary information, other than Management's Discussion and Analysis, provides information about the required budgetary comparison information on the General Fund.
- Other supplementary information provides detailed information about the General, Debt Service, and Food Service Funds.

HANCOCK PUBLIC SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016

Overview of the Financial Statements (Continued)

Summary of Net Position

	<u>2016</u>	<u>2015</u>
Assets		
Current and other assets	\$ 2,424,260	\$ 2,403,752
Restricted cash	259,356	520,128
Capital assets - Net of accumulated depreciation	<u>15,381,433</u>	<u>15,931,306</u>
Total assets	<u>18,065,049</u>	<u>18,855,186</u>
Deferred outflows	991,680	831,739
Liabilities		
Current liabilities	3,810,680	3,355,530
Long-term liabilities	14,280,332	15,740,069
Net pension liability	<u>9,097,978</u>	<u>7,893,347</u>
Total liabilities	<u>27,188,990</u>	<u>26,988,946</u>
Deferred inflows	30,368	872,613
Net position		
Net investment in capital assets	(391,982)	(876,472)
Restricted debt service	262,687	526,252
Restricted food service	(109,312)	(100,647)
Unrestricted	<u>(7,924,022)</u>	<u>(7,723,767)</u>
Total net position	<u>\$ (8,162,629)</u>	<u>\$ (8,174,634)</u>

Results of Operations in Governmental Activities

	<u>2016</u>	<u>2015</u>
Program Revenues		
Charges for services	\$ 173,210	\$ 211,707
Grants and contributions	1,215,890	1,243,654
General Revenues		
Taxes	2,672,323	2,922,553
State foundation allowance	4,721,226	4,686,577
Other	<u>157,374</u>	<u>340,564</u>
Total revenues	<u>8,940,023</u>	<u>9,405,055</u>
Functions/program expenses		
Instructions	5,324,970	5,214,098
Support services	2,110,332	1,954,946
Community services	342,563	301,184
School food services	186,026	244,005
Athletics	66,785	49,415
Interest on long-term debt	667,042	689,491
Other debt service	<u>230,300</u>	<u>64,888</u>
Total expenses	<u>8,928,018</u>	<u>8,518,027</u>
Change in net position	12,005	887,028
Net position - Beginning	<u>(8,174,634)</u>	<u>(9,061,662)</u>
Net position - Ending	<u>\$ (8,162,629)</u>	<u>\$ (8,174,634)</u>

HANCOCK PUBLIC SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016

Overview of the Financial Statements (Continued)

The following table highlights the District's General Fund activities for the current and prior years:

	<u>2016</u>	<u>% of total</u>	<u>2015</u>	<u>% of total</u>
Revenues				
Taxes	\$ 1,041,106	14.9 %	\$ 1,064,806	14.7 %
Other local revenue	250,644	3.7 %	379,715	5.2 %
Unrestricted state aid	4,721,226	67.6 %	4,686,577	64.8 %
Other state sources	757,682	10.8 %	848,561	11.7 %
Federal sources	164,641	2.3 %	169,356	2.4 %
Other financing sources	51,114	0.7 %	88,940	1.2 %
Total revenues	<u>\$ 6,986,413</u>	<u>100.0 %</u>	<u>\$ 7,237,955</u>	<u>100.0 %</u>
Expenditures				
Instruction	\$ 4,652,602	66.8 %	\$ 4,726,157	67.2 %
Pupil services	157,500	2.3 %	120,008	1.7 %
Instructional staff	18,379	0.3 %	22,924	0.3 %
General administration	282,023	4.0 %	189,118	2.7 %
School administration	461,222	6.6 %	496,103	7.1 %
Business-fiscal services	115,630	1.7 %	117,348	1.7 %
Operation and maintenance	679,419	9.8 %	673,119	9.6 %
Pupil transportation	260,744	3.7 %	250,177	3.6 %
Athletics	183,376	2.6 %	243,138	3.5 %
Technical support	87,861	1.3 %	87,746	1.2 %
Community services	66,785	0.9 %	49,415	0.6 %
Installment loan payments	-	- %	54,587	0.8 %
Other financing uses	430	- %	-	- %
Total expenditures	<u>\$ 6,965,971</u>	<u>100.0 %</u>	<u>\$ 7,029,840</u>	<u>100.0 %</u>

Significant Transactions and Changes in Individual Funds

A comparison of revenues/transfers, expenditures/transfers and fund balances is as follows:

	<u>2016</u>	<u>2015</u>	<u>Change</u>
General Fund			
Revenues/Other financing sources	\$ 6,986,413	\$ 7,237,955	\$ (251,542)
Expenditures/Other financing uses	\$ 6,965,971	\$ 7,029,840	\$ (63,869)
Fund Balance	\$ 311,929	\$ 291,487	\$ 20,442
Debt Service Fund			
Revenues/Other financing sources	\$ 1,760,190	\$ 1,878,678	\$ (118,488)
Expenditures/Other financing uses	\$ 2,023,755	\$ 1,643,980	\$ 379,775
Fund Balance	\$ 262,687	\$ 526,252	\$ (263,565)
Food Service Fund			
Revenues/Other financing sources	\$ 329,141	\$ 288,422	\$ 40,719
Expenditures/Other financing uses	\$ 337,806	\$ 299,842	\$ 37,964
Fund Balance	\$ (109,312)	\$ (100,647)	\$ (8,665)

**HANCOCK PUBLIC SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016**

Significant Transactions and Changes in Individual Funds (Continued)

General Fund: There was a decrease in federal grants in the amount of \$4,715 and an increase in State Aid in the amount of \$34,649. Restricted state revenue decreased by \$90,879. Taxes and other local sources decreased by \$152,598 with a majority in athletic revenues in the amount of \$81,903, miscellaneous \$29,624, taxes \$23,074, and contributions \$30,056. Decreases in expenditures occurred in At-Risk, compensatory education, library, board of education, business fiscal services, operation & maintenance and other financing uses. There was an overall net decrease in general fund total expenditures of \$9,712.

Debt Service Fund: The Debt Service Fund collects property taxes and receives interest earnings on bank deposits to finance the payment of interest and principal on bond issue-related debt of the District. In the current year the District refunded a majority of the 2008 Refunding Bonds totaling \$6,890,000. Taxes and other revenue increased by approximately \$544,300.

Food Service Fund: Revenue increased in student lunches, and federal reimbursement. Expenditures increased in purchased services, and supplies and materials, but decreased by \$14,437 in salaries and employee benefits.

General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the annual 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.

For the fiscal year ended June 30, 2016, the original budget was adopted in June 2015. Since the original budget is adopted two months before school is in session, we often have many unknowns such as the number of students we will have for the year. Since much of the District's revenue is determined based on the number of students enrolled, this unknown could have a significant impact on the budget. Often there are a number of unforeseen events that occur throughout the year that impact the budget and/or cause budget variances.

	Budgeted Amounts		Actual	Variance Final to Actual	% Variance
	Original	Final			
Revenues	\$ 6,537,535	\$ 6,551,933	\$ 6,935,299	\$ 383,366	5.9 %
Expenditures					
Instruction	\$ 4,431,195	\$ 4,479,294	\$ 4,652,602	\$ (173,308)	(3.9)%
Supporting services	2,141,143	2,174,399	2,312,939	(138,540)	(6.4)%
Total expenditures	\$ 6,572,338	\$ 6,653,693	\$ 6,965,541	\$ (311,848)	(4.7)%
Other financing sources (uses)	\$ 66,000	\$ 48,070	\$ 50,684	\$ 2,614	5.4 %

The original budget for revenues were adjusted for property tax and grant revenues with final determinations also the expenditures budget was adjusted for increases in expenditures.

**HANCOCK PUBLIC SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016**

Capital Assets and Debt Administration

Capital Assets – The District’s net investment in capital assets decreased by \$549,873 for the fiscal year.

Additional information on the District’s capital assets can be found on page 26 of this report.

Long-term Debt – During the current fiscal year, the District debt decreased by \$1,001,892. Fiscal year end debt was \$17,192,191

Additional information on the District’s long-term debt can be found on page 27 of this report.

Known Facts, Decisions, or Conditions Having Significant Affect on Future Operations

The table depicts a decrease of 7 students enrolled from the previous year, using the State Aid Membership Count.

<u>Year</u>	<u>Student Total</u>	<u>Change</u>
2011-12	839	-8
2012-13	830	-9
2013-14	825	-5
2014-15	807	-18
2015-16	800	-7

Our elected officials and administration consider many factors when setting the District’s fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil.

State revenues received by Michigan school districts are approved annually in a State Aid Act. This Act, approved by the State Legislature, provides a foundation amount (amount per student) of \$7,391 for the school year.

August 2015 State Aid note payback and borrowing: Paid back the \$1.750 million borrowed the previous year and decreased the borrowing to \$1.450 million for this year.

Contacting the District’s Financial Management

This financial report is designed to provide our citizens and taxpayers with a general overview of the District’s finances. If you have questions about this report or need additional information, contact the Business Office, Hancock Public Schools, 501 Campus Drive, Hancock, Michigan 49930.

HANCOCK PUBLIC SCHOOLS
STATEMENT OF NET POSITION

June 30, 2016

Assets	
Cash and cash equivalents	\$ 1,330,419
Investments	12,758
Taxes receivable	34,063
Accounts receivable	28,589
Due from governmental units	1,018,431
Restricted cash	259,356
Capital assets - Net	<u>15,381,433</u>
Total assets	<u>18,065,049</u>
Deferred outflows of resources - Pension	991,680
Liabilities	
Accounts payable	20,658
Accrued expenses and salaries payable	648,048
Accrued interest	130,830
Note payable, due within one year	1,549,606
Capital lease, due within one year	1,538
Capital lease, due in more than one year	1,047
Bonds payable, due within one year	1,460,000
Bonds payable, due in more than one year	14,180,000
Compensated absences	99,285
Net pension liability	<u>9,097,978</u>
Total liabilities	<u>27,188,990</u>
Deferred inflows of resources - Pension	30,368
Net position	
Net investment in capital assets	(391,982)
Restricted	
Debt service	262,687
Food service	(109,312)
Unrestricted	<u>(7,924,022)</u>
Total net position	<u><u>\$ (8,162,629)</u></u>

HANCOCK PUBLIC SCHOOLS
STATEMENT OF ACTIVITIES
Year Ended June 30, 2016

<u>Functions/Programs</u>	<u>Program Revenues</u>			<u>Governmental</u>
	<u>Expenditures</u>	<u>Charges for</u>	<u>Operating</u>	<u>Activities</u>
		<u>services</u>	<u>grants and</u>	<u>Net (Expense)</u>
			<u>contributions</u>	<u>Revenue and</u>
				<u>Changes in Net</u>
				<u>Position</u>
Government Activities				
Instruction and instructional support	\$ 5,324,970	\$ -	\$ 923,023	\$ (4,401,947)
Support services	2,110,332	-	100,681	(2,009,651)
School food service	342,563	136,749	192,186	(13,628)
Athletics	186,026	36,461	-	(149,565)
Community services	66,785	-	-	(66,785)
Interest on long-term debt	667,042	-	-	(667,042)
Other debt service	230,300	-	-	(230,300)
Total governmental activities	<u>\$ 8,928,018</u>	<u>\$ 173,210</u>	<u>\$ 1,215,890</u>	<u>(7,538,918)</u>

General revenues:

Taxes, levied for general operations	1,031,427
Taxes, levied for debt service	1,640,896
Unrestricted state aid	4,721,226
Earnings on investments	2,713
Prior period adjustment	(430)
Gain (Loss) on disposal of assets	(25,291)
Intermediate sources	129,268
Incoming transfers - other schools	<u>51,114</u>
Total general revenues, transfers, & special items	<u>7,550,923</u>
Change in net position	12,005
Net position - Beginning of year	<u>(8,174,634)</u>
Net position - End of year	<u>\$ (8,162,629)</u>

The accompanying notes to the financial statements are an integral part of this statement.

HANCOCK PUBLIC SCHOOLS
GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2016

	<u>General</u>	<u>Debt Service</u>	<u>Non-Major Fund Food Service</u>	<u>Total</u>
Assets				
Cash and cash equivalents	\$ 1,246,826	\$ -	\$ 83,593	\$ 1,330,419
Investments	12,758	-	-	12,758
Taxes receivable	30,732	3,331	-	34,063
Accounts receivable	21,375	-	7,214	28,589
Due from governmental units	1,018,431	-	-	1,018,431
Due from other funds	197,143	-	-	197,143
Restricted cash	-	259,356	-	259,356
Total assets	<u>\$ 2,527,265</u>	<u>\$ 262,687</u>	<u>\$ 90,807</u>	<u>\$ 2,880,759</u>
Liabilities				
Accounts payable	\$ 17,682	\$ -	\$ 2,976	\$ 20,658
Accrued expenses and salaries payable	648,048	-	-	648,048
Due to other funds	-	-	197,143	197,143
Note payable, due within one year	1,549,606	-	-	1,549,606
Total liabilities	<u>2,215,336</u>	<u>-</u>	<u>200,119</u>	<u>2,415,455</u>
Fund balances				
Restricted				
Debt service	-	262,687	-	262,687
Food service	-	-	(109,312)	(109,312)
Assigned				
Unassigned	311,929	-	-	311,929
Total fund balances	<u>311,929</u>	<u>262,687</u>	<u>(109,312)</u>	<u>465,304</u>
Total liabilities and fund balances	<u>\$ 2,527,265</u>	<u>\$ 262,687</u>	<u>\$ 90,807</u>	<u>\$ 2,880,759</u>

The accompanying notes to the financial statements are an integral part of this statement.

HANCOCK PUBLIC SCHOOLS
GOVERNMENTAL FUNDS
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2016

Fund Balance Reported in Governmental Funds	\$ 465,304
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and therefore are not reported in the funds	15,381,433
Net pension liability	(9,097,978)
Deferred outflows from the difference between pension changes of assumptions and contributions subsequent to the measurement date	991,680
Deferred inflows from the difference between projected and actual investment earnings of the pension plan	(30,368)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds	(15,741,870)
Accrued interest is not included as a liability in governmental funds	<u>(130,830)</u>
Net position of governmental activities	<u><u>\$ (8,162,629)</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

HANCOCK PUBLIC SCHOOLS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
Year Ended June 30, 2016

	<u>General</u>	<u>Debt Service</u>	<u>Non-Major Fund Food Service</u>	<u>Total</u>
Revenues				
Local sources	\$ 1,282,308	\$ 1,650,190	\$ 136,955	\$ 3,069,453
Intermediate sources	9,442	-	-	9,442
State sources	5,478,908	-	13,172	5,492,080
Federal sources	164,641	-	179,014	343,655
Total revenues	<u>6,935,299</u>	<u>1,650,190</u>	<u>329,141</u>	<u>8,914,630</u>
Expenditures				
Instruction	4,652,602	-	-	4,652,602
Supporting services	2,062,778	-	-	2,062,778
School food service	-	-	337,806	337,806
Athletics	183,376	-	-	183,376
Community services	66,785	-	-	66,785
Debt service	-	2,023,755	-	2,023,755
Total expenditures	<u>6,965,541</u>	<u>2,023,755</u>	<u>337,806</u>	<u>9,327,102</u>
Excess (deficiency) of revenues over expenditures	<u>(30,242)</u>	<u>(373,565)</u>	<u>(8,665)</u>	<u>(412,472)</u>
Other financing sources (uses)				
Incoming transfers - other schools	51,114	-	-	51,114
Prior period adjustment	(430)	-	-	(430)
Proceeds of refunding bonds	-	6,550,000	-	6,550,000
Payment to refunded bond escrow agent	-	(6,440,000)	-	(6,440,000)
Total other financing sources (uses)	<u>50,684</u>	<u>110,000</u>	<u>-</u>	<u>160,684</u>
Net change in fund balances	20,442	(263,565)	(8,665)	(251,788)
Fund balances - Beginning of year	<u>291,487</u>	<u>526,252</u>	<u>(100,647)</u>	<u>717,092</u>
Fund balances - End of year	<u>\$ 311,929</u>	<u>\$ 262,687</u>	<u>\$ (109,312)</u>	<u>\$ 465,304</u>

The accompanying notes to the financial statements are an integral part of this statement.

HANCOCK PUBLIC SCHOOLS
GOVERNMENTAL FUNDS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2016

Net Change in Fund Balances - Total Governmental Funds	\$ (251,788)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds do not record depreciation and report capital outlays as expenditures; in the statement of activities, these costs are capitalized and allocated over their estimated useful lives as depreciation	(549,873)
Accrued expenses are recorded in the statement of activities when incurred; they are not reported in governmental funds until paid	(25,388)
Capital lease activities increases long-term debt in the statement of activities	1,499
The change in net pension liability amounts does not require the use of current resources and is not reported in the governmental funds	(202,445)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	<u>1,040,000</u>
Change in net position of governmental activities	<u><u>\$ 12,005</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

HANCOCK PUBLIC SCHOOLS
FIDUCIARY FUNDS
STATEMENT OF ASSETS AND LIABILITIES
June 30, 2016

	<u>Fiduciary Funds</u>
Assets	
Restricted cash	\$ 88,783
Investments	<u>80,659</u>
Total assets	<u><u>\$ 169,442</u></u>
Liabilities	
Due to student groups	\$ 88,783
Scholarship funds	<u>80,659</u>
Total liabilities	<u><u>\$ 169,442</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

HANCOCK PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS - June 30, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of Hancock Public Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant District accounting policies are described below.

REPORTING ENTITY

Hancock Public Schools (the “District”) is governed by the Hancock Public 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 government sources and must comply with all 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 Statement Numbers 14 and 39.

GOVERNMENT-WIDE AND FUND 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 non-fiduciary activities of the District. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the District’s government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues and are reported as general revenues.

In the government-wide statement of net position, the governmental activities column is presented on a consolidated basis and is reported on a full accrual, economic resource basis, which recognizes all long-term receivables as well as long-term debt obligations. The District’s net position are reported in three parts – net investment in capital assets; restricted for debt service and food service; and unrestricted net position.

The government-wide statement of activities reports both the gross and net cost of each of the District’s functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues and other revenues). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenue must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The District does allocate indirect costs.

The government-wide focus is more on the sustainability of the District as an entity and the change in the District’s net position resulting from the current year’s activities.

HANCOCK PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS - June 30, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

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

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

The District reports the following major governmental funds:

General Fund - The General Fund is the general operating fund and accordingly, it is used to account for all financial resources except those required to be accounted for in another fund.

Debt Service Fund - The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Other Non-Major funds:

Special Revenue Funds - Special Revenue Funds are used to account for the activities of specific revenue sources such as the School Food Service.

Fiduciary Funds – The Trust and Agency Fund is used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. This fund is used to account for assets that the District holds for others in an agency capacity (primary student activities).

The Scholarship Fund is used to account for assets held by the District in a trustee capacity or as an agent for individuals or private organizations designated for scholarship purposes. The Fund distributes the assets according to scholarship requirements.

Fiduciary funds are not included in the government-wide statements.

Accrual Method – 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.

HANCOCK PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS - June 30, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION

Modified Accrual Method – 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 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 done.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

State Revenue - The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts and the local county treasurer. For the year ended June 30, 2016, the foundation allowance was based on pupil membership counts taken in February and October of previous years for a three year blended average.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2015 to August 2016. Thus, the unpaid portion at June 30 is reported as due from other governmental units.

Foundation		\$ 7,391.00
Less Local Support:		
Assumed Local Revenue	\$1,058,906.00	
Divided by General Education k-12 membership	<u>794.13</u>	
Calculated Local Support		<u>(1,333.42)</u>
Foundation Grant Allowance Per Pupil		<u><u>\$ 6,057.58</u></u>

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, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

Other Accounting Policies

Cash and Cash Equivalents – Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income is generally allocated to each fund using a weighted average of balance for the principal.

HANCOCK PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS - June 30, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property Taxes – Property taxes levied by the District are collected by Franklin Township, Hancock Township, Quincy Township and the City of Hancock 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 becomes a lien on the first day of the levy year.

For the year ended June 30, 2016, the District levied the following amounts per \$1,000 of assessed valuation:

Fund	Mills
General fund - Non-homestead	18.0000
Debt service fund - Homestead and non-homestead	9.9900

A Local Development Financing Authority is located in the District. The Authority has established a SmartZone that captures 9 mills of the 18 mills from the (Non-homestead) taxable value of certain properties.

Receivables and Payables – Activity between funds are reported as “due to/from other funds.”

All receivables, including property taxes receivable, are shown net of allowance for uncollectibles.

Inventory – All funds utilize the purchase method of recording inventories of materials and supplies. Under the purchase method, inventories are recorded as expenditures when they are purchased.

Capital Assets – Capital assets, which include land, buildings, equipment, site improvements, and vehicles are reported in the applicable governmental activities column in the government-wide financial statements. Fixed assets are defined by the government as assets with an initial individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair & maintenance that do not add to the value or materially extend asset lives are not capitalized.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Buses and other vehicles	5-10 years
Furniture and other equipment	5-10 years

Accrued Compensated Absences – The liabilities for accrued compensated absences reported in the district-wide statements in the amount of \$99,285 consisted of sick leave and vacation balances.

Teachers with a minimum of 10 years of service in the District, and all non-affiliated staff are entitled to receive 50% of their accumulated sick leave up to a maximum of 160 days upon termination at the current daily rate for substitute teachers (not to exceed \$60). Teachers eligible to retire under the provisions of MPSERS are entitled to receive 60% of their accumulated sick leave upon retirement. Unionized support staff who retire under the provisions of MPSERS, are entitled to receive 50% of their accumulated sick time up to the maximum 180 days at the rate of \$30 per day. Total accrued sick leave as of June 30, 2016 is \$83,998.

Teachers do not accumulate vacation time and the unionized support staff are required to take their vacation during the contract year or else it is forfeited. Non-affiliated staff are required to use all vacation time accrued in a school calendar year, during that school calendar year. Days accrued in a school calendar year and not used will be lost. Total accrued vacation as of June 30, 2016 is \$15,287.

Long-term Debt – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position.

HANCOCK PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS - June 30, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position - Deferred outflows are reported in a separate section following assets, and deferred inflows are reported in a separate section following liabilities. The statement of net position then arrives at net position which includes the net effects of assets, deferred outflows of resources, liabilities, and deferred inflows of resources.

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

Fund Balance - Governmental funds report *nonspendable fund balance* for amounts that cannot be spent because they are either a.) Not in spendable form, or b.) Legally or contractually required to be maintained intact. *Restricted fund balance* is reported when externally imposed constraints are placed on the use of the resources by grantors, contributors, laws or regulations of other governments. *Committed fund balance*, if any, is reported from amounts that can be used for specific purposes pursuant to constraints imposed by formal action by the government's highest level of decision making authority, the Board of Education. A formal resolution of the Board of Education is required to establish, modify or rescind a fund balance commitment. The District reports *assigned fund balance* for amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. *Unassigned fund balance* is the residual classification for the general fund.

When the District incurs an expenditure for purposes for which various fund balance classifications can be used, it is the District's policy to use restricted fund balance first, then committed fund balance, assigned fund balance, and finally unassigned balance.

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Subsequent Events - Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through the date of the accompanying independent auditor's report, which is the date the financial statements were available to be issued.

NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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 July 1. The operating budget includes proposed expenditures and 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. A public hearing is held to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978) enacted at a regular meeting by School Board approval. The Act provides that a local unit shall not incur expenditures in excess of the amount appropriated.
4. During the year the budget is monitored, and amendments to the budget resolution are made when deemed necessary.
5. Budget appropriations lapse at the end of the fiscal year.

HANCOCK PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS - June 30, 2016

NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

In the body of the financial statements, the District’s actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. Violations, if any, for the General Fund are noted in the required supplementary information section.

NOTE C - DEPOSITS AND INVESTMENTS

At year-end, the District’s cash deposits (checking, savings and certificates of deposit) and investments were reported in the basic financial statements in the following categories and breakdown between deposits and investments for the District is as follows:

	Governmental Funds	Fiduciary Funds	Total Primary Government
Unrestricted cash	\$ 1,330,419	\$ -	\$ 1,330,419
Restricted cash	259,356	88,783	348,139
Total cash and cash equivalents	1,589,775	88,783	1,678,558
Investments	12,758	80,659	93,417
Total cash and investments	<u>\$ 1,602,533</u>	<u>\$ 169,442</u>	<u>\$ 1,771,975</u>

Investment and Deposit Risk

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. State law does not require and the District does not have a policy for deposit custodial credit risk. As of June 30, 2016, \$1,176,745 of the District’s bank balance of \$1,676,745 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk - Investments – For an investment, custodial credit risk is the risk that, in the event of the failure of the counter party, 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. State law does not require and the District does not have a policy for investment custodial credit risk. On the investment listed above, there is no custodial credit risk, as these investment are unategorized as to credit risk.

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. The District’s investments held at year end do not have maturity dates.

Credit Risk – State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investments pools as identified in the list of authorized investments below. The District’s investment policy does not have specific limits in excess of state law on investment credit risk. The rating for each investment are identified above for investments held at year end.

HANCOCK PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS - June 30, 2016

NOTE C - DEPOSITS AND INVESTMENTS (Continued)

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
General Fund			
Michigan Liquid Asset Fund	\$ 12,758	AAAm	Standards & Poor
Fiduciary Funds			
Cash equivalents	4,456		
Bank Certificates of Deposits	60,000		
Equities	16,203		
Total	<u>\$ 93,417</u>		

Michigan law authorizes the District to deposit and invest in:

1. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bill or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
2. Certificates of deposits issued by the State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.
3. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
4. Securities issued or guaranteed by agencies or instrumentalities of the United States, United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the Federal Deposit Insurance Corporation.
5. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
6. Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

HANCOCK PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS - June 30, 2016

NOTE D - CAPITAL ASSETS

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

	Balance July 01, 2015	Additions	Deletions	Balance June 30, 2016
Capital assets, not being depreciated				
Land	\$ 171,938	\$ -	\$ -	\$ 171,938
Capital assets, being depreciated				
Buildings and additions	23,327,839	\$ -	\$ 1,296,890	22,030,949
Improvements other than building	571,225	-	-	571,225
Equipment and furniture	2,423,902	-	-	2,423,902
Vehicles	31,022	-	-	31,022
Subtotal	<u>26,353,988</u>	<u>\$ -</u>	<u>\$ 1,296,890</u>	<u>25,057,098</u>
Accumulated depreciation				
Building and additions	7,890,171	\$ 443,493	\$ 1,271,599	7,062,065
Improvements other than building	449,643	28,561	-	478,204
Equipment and furniture	2,232,186	48,650	-	2,280,836
Vehicles	22,620	3,878	-	26,498
Subtotal	<u>10,594,620</u>	<u>\$ 524,582</u>	<u>\$ 1,271,599</u>	<u>9,847,603</u>
Net capital assets being depreciated	<u>15,759,368</u>			<u>15,209,495</u>
Net capital assets	<u>\$ 15,931,306</u>			<u>\$ 15,381,433</u>

Depreciation expense was charged to activities of the District as follows:

Governmental activities	
Athletic	\$ 1,572
Instruction	516,504
Operations and maintenance	6,066
Pupil transportation	440
Total governmental	<u>\$ 524,582</u>

NOTE E - RECEIVABLES

Receivables at year end that are expected to be collected within one year consist of the following:

	General	Debt Service	Food Service	Total
Due from governmental units - state	\$ 1,018,431	\$ -	\$ -	\$ 1,018,431
Taxes receivable	30,732	3,331	-	34,063
Accounts receivable	21,375	-	7,214	28,589
Total payables	<u>\$ 1,070,538</u>	<u>\$ 3,331</u>	<u>\$ 7,214</u>	<u>\$ 1,081,083</u>

HANCOCK PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS - June 30, 2016

NOTE F - INTER-FUND RECEIVABLES, PAYABLES, AND TRANSFERS

Amounts due from (to) other funds represent the balance of monies due from or to other funds for expenditures made or fund balance transfers approved. There were no transfers between funds as of June 30, 2016.

<u>Fund</u>	<u>Inter-fund Receivable</u>	<u>Fund</u>	<u>Inter-fund Payable</u>
General	\$ 197,143	Food Service	\$ 197,143

NOTE G - ACCRUED EXPENSES AND SALARIES PAYABLE

Accrued liabilities as of June 30, 2016, for the District's fund financial statements in the general fund, are as follows:

<u>Payables</u>	<u>General</u>
Salaries payable	\$ 441,608
Accrued expenses	206,440
Total payables	<u>\$ 648,048</u>

NOTE H - LONG TERM DEBT

Michigan Finance Authority School Loan Fund:

On August 20, 2015, the District entered into four notes with the Michigan Finance Authority School Loan Fund.

- Revenue Note Series 2015C-1 is for \$61,162. The interest rate on the Note shall not exceed .76 % per annum. The note matures on July 20, 2016.
- Revenue Note Series 2015C-2 is for \$642,647. The interest rate on the Note shall not exceed 1.080% per annum. The note matures on August 22, 2016.
- Revenue Note Series 2015C-3 is for \$857,353. The interest rate on the Note shall not exceed 1.4625% per annum. The note matures on August 22, 2016.
- Revenue Note Series 2015C-4 is for \$28,838. The interest rate on the Note shall not exceed .640% per annum. The note matures on July 20, 2016.

There are bond issuance costs of \$2,680 and interest expense of \$20,129. The loans, which are pledged by future state aid payments, provided funds for general operating expenditures.

On August 20, 2016, the District entered into four notes with the Michigan Finance Authority School Loan Fund.

- Revenue Note Series 2016C-1 is for \$39,975. The interest rate on the Note shall not exceed 1.133 % per annum. The note matures on July 20, 2017.
- Revenue Note Series 2016C-2 is for \$60,025. The interest rate on the Note shall not exceed 1.133% per annum. The note matures on July 20, 2017.
- Revenue Note Series 2016C-3 is for \$1,350,000. The interest rate on the Note shall not exceed 1.359% per annum. The note matures on August 21, 2017.

HANCOCK PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS - June 30, 2016

NOTE H - LONG TERM DEBT (Continued)

There are bond issuance costs of \$2,367 and interest expense of \$16,865. The loans, which are pledged by future state aid payments, provided funds for general operating expenditures.

2008 Building and Site Bond

On June 18, 2008, the District issued \$8,820,000 of general obligation-unlimited tax bonds for the purpose of erecting, furnishing and re-equipping school buildings; acquiring and installing educational technology improvements; constructing a new garage; and developing and improving playgrounds, athletic fields and facilities and sites.

The bond issue (denominations of \$5,000) matures as indicated below with interest at varying rates of 3% to 5.25% per annum payable semiannually on the first day of November and May in each year; and shall mature on May 1 in each year until 2033.

Optional Redemption: The bonds or portions of the bonds in multiples of \$5,000 maturing on or after May 1, 2021 are subject to redemption at the option of the District in such order as the District may determine and by lot within any maturity, on any date occurring on or after May 1, 2018 at par plus accrued interest to the date fixed for redemption.

The bonds maturing May 1, 2021, May 1, 2024, May 1, 2027 and May 1, 2033 (the “Term Bonds”) are subject to mandatory redemption on the redemption dates and the principal amounts.

Amount of the bonds that are defeased with the 2016 Refunding Bonds total \$6,550,000.

Fiscal Year	November 1	May 1		Total
	Interest	Interest	Principal	
2016-2017	\$ 11,381	\$ 11,381	\$ 610,000	\$ 632,762
2017-2018	5,981	5,981	290,000	301,962
	<u>\$ 17,362</u>	<u>\$ 17,362</u>	<u>\$ 900,000</u>	<u>\$ 934,724</u>

2012 Refunding Bonds

On December 12, 2012, the School District issued general obligation bonds of \$5,400,000. Proceeds from this bond issue were used to refund the Michigan Department of Treasury’s School Bond Qualification and Loan Program loan.

Optional Redemption: The Bonds or portions of the Bonds in multiples of \$5,000 maturing on or after May 1, 2021, are subject to redemption at the option of the School District in such order as the School District may determine and by lot within any maturity, on any date occurring on or after May 1, 2021, at par plus accrued interest to the date fixed for redemption.

HANCOCK PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS - June 30, 2016

NOTE H - LONG TERM DEBT (Continued)

The Bonds due May 1, 2021 are term bonds subject to mandatory redemption in part, by lot, on the redemption dates and in the principal amounts set forth below and at the redemption price equal to the principal amount thereof, without premium, together with interest thereon to the redemption date.

Fiscal Year	November 1	May 1		Total
	Interest	Interest	Principal	
2016-2017	\$ 61,053	\$ 61,053	\$ 505,000	\$ 627,106
2017-2018	57,139	57,139	575,000	689,278
2018-2019	51,676	51,676	635,000	738,352
2019-2020	45,009	45,009	720,000	810,018
2020-2021	36,729	36,729	795,000	868,458
2021-2022	26,593	26,593	890,000	943,186
2022-2023	14,355	14,355	990,000	1,018,710
	<u>\$ 292,554</u>	<u>\$ 292,554</u>	<u>\$ 5,110,000</u>	<u>\$ 5,695,108</u>

2015 Refunding Bonds

On February 18, 2015, the School District issued general obligation bonds of \$4,295,000. Proceeds from this bond issue were used to refund the 2004 Refunding Bonds and the 2002 Refunding Bonds.

Optional Redemption: The Bonds or portions of the Bonds in multiples of \$5,000 maturing on or after May 1, 2025, are subject to redemption at the option of the School District in such order as the School District may determine and by lot within any maturity, on any date occurring on or after May 1, 2024, at par plus accrued interest to the date fixed for redemption.

The Bonds due May 1, 2025 are term bonds subject to mandatory redemption in part, by lot, on the redemption dates and in the principal amounts set forth below and at the redemption price equal to the principal amount thereof, without premium, together with interest thereon to the redemption date.

Fiscal Year	November 1	May 1		Total
	Interest	Interest	Principal	
2016-2017	\$ 58,056	\$ 58,056	\$ 345,000	\$ 461,112
2017-2018	51,156	51,156	330,000	432,312
2018-2019	44,556	44,556	320,000	409,112
2019-2020	39,756	39,756	310,000	389,512
2020-2021	33,556	33,556	295,000	362,112
2021-2022	27,656	27,656	280,000	335,312
2022-2023	22,056	22,056	265,000	309,112
2023-2026	32,550	32,550	935,000	1,000,100
	<u>\$ 309,342</u>	<u>\$ 309,342</u>	<u>\$ 3,080,000</u>	<u>\$ 3,698,684</u>

HANCOCK PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS - June 30, 2016

NOTE H - LONG TERM DEBT (Continued)

2016 Refunding Bonds

On April 14, 2016, the School District issued general obligation bonds of \$6,550,000. Proceeds from this bond issue were used to advance refund a portion of the 2008 School Building and Site Bonds, dated July 8, 2008, which are due and payable May 1, 2021, May 1, 2024, May 1, 2027 and May 1, 2033, inclusive and to pay the costs of issuing the Bonds. As a result, the refunded bonds are considered to be defeased and the liability as of April 13, 2016 has been removed from the government-wide statement of net position. The refunding was undertaken to reduce annual debt service payments. The net savings is \$896,035 and the net present value savings is \$774,773. The average annual savings is \$52,708, the net savings with bond term of 17 years.

A portion of the proceeds were used to pay certain costs of issuance relating to the refunding of the prior bonds and to establish an "Escrow Fund". The Escrow Fund was held by an escrow agent used to pay when due the principal and interest on the prior bonds. Interest on the bonds shall be payable semiannually each May 1 and November 1 to maturity or early redemption, commencing November 1, 2016.

Sources and uses of funds to service the old debt and complete the refunding were as follows:

SOURCES	
Par Amount of the Bonds	\$ 6,550,000
Original Issue Premium	803,907
Contribution from Prior Bonds Debt Retirement Fund	<u>230,000</u>
Total Sources	<u><u>7,583,907</u></u>
USES	
Escrow Fund	\$ 7,483,369
Underwriter's Discount	31,112
Estimated Costs of Issuance	<u>69,426</u>
Total Uses	<u><u>\$ 7,583,907</u></u>

Optional Redemption: The Bonds maturing on or after May 1, 2027, shall be subject to redemption at the option of the School District in such order of maturity as the School District may determine and within a single maturity by lot, on any date on or after May 1, 2026 at par plus accrued interest to the date fixed for redemption.

Fiscal Year	November 1	May 1		Total
	Interest	Interest	Principal	
2016-2017	\$ 262,000	\$ 262,000	\$ -	\$ 524,000
2017-2018	262,000	262,000	-	524,000
2018-2019	262,000	262,000	280,000	804,000
2019-2020	250,800	250,800	260,000	761,600
2020-2021	240,400	240,400	265,000	745,800
2021-2022	229,800	229,800	245,000	704,600
2022-2023	220,000	220,000	230,000	670,000
2023-2028	865,200	865,200	2,450,000	4,180,400
2028-2033	342,000	342,000	2,820,000	3,504,000
	<u>\$ 2,934,200</u>	<u>\$ 2,934,200</u>	<u>\$ 6,550,000</u>	<u>\$ 12,418,400</u>

HANCOCK PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS - June 30, 2016

NOTE H - LONG TERM DEBT (Continued)

Capital Lease Agreements - On February 7, 2013, the District entered into a capital lease agreement with Kyocera Document Solutions American, Inc. in the amount of \$7,435 for a copier. This lease has an annual percentage rate of 2.56% and fixed payments will be made monthly which will include interest. The lease will expire February 7, 2018, at which time the District will legally own the copier.

<u>Fiscal Year</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2016-2017	\$ 48	\$ 1,538	\$ 1,586
2017-2018	10	1,047	1,057
	<u>\$ 58</u>	<u>\$ 2,585</u>	<u>\$ 2,643</u>

Long-term liabilities activity for the fiscal year ended June 30, 2016, was as follows:

	<u>Balance</u> <u>July 01, 2015</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2016</u>	<u>Current</u> <u>Portion</u>
2016 Refunding Bond	\$ -	\$ 6,550,000	\$ -	\$ 6,550,000	\$ -
2008 Building and Site Bond	7,695,000	-	6,795,000	900,000	610,000
2012 Refunding Bond	5,320,000	-	210,000	5,110,000	505,000
2014 Refunding Bond	3,665,000	-	585,000	3,080,000	345,000
Michigan Finance Authority	1,510,000	1,590,000	1,550,394	1,549,606	1,549,606
Capital Lease	4,083	-	1,498	2,585	1,538
	<u>18,194,083</u>	<u>8,140,000</u>	<u>9,141,892</u>	<u>17,192,191</u>	<u>\$ 3,011,144</u>
Accrued Interest	107,243	-	18,565	88,678	
Accrued Benefits	97,485	1,800	-	99,285	
Total	<u>\$ 18,398,811</u>	<u>\$ 8,141,800</u>	<u>\$ 9,160,457</u>	<u>\$ 17,380,154</u>	

As of June 30, 2016, the aggregate maturities of long-term debt are as follows:

<u>Fiscal Year</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2016-2017	\$ 805,157	\$ 3,011,145	\$ 3,816,302
2017-2018	752,562	1,196,046	1,948,608
2018-2019	716,464	1,235,000	1,951,464
2019-2020	671,130	1,290,000	1,961,130
2020-2021	621,370	1,355,000	1,976,370
2021-2022	568,098	1,415,000	1,983,098
2022-2023	512,822	1,485,000	1,997,822
2023-2028	1,795,500	3,385,000	5,180,500
2032-2033	684,000	2,820,000	3,504,000
	<u>\$ 7,127,103</u>	<u>\$ 17,192,191</u>	<u>\$ 24,319,294</u>

HANCOCK PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS - June 30, 2016

NOTE I -EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN

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

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

The System's financial statements are available at www.michigan.gov/mpsers-cafr.

Benefits Provided – Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit pension plan. Retirement benefits for defined benefit plan members are determined by final average compensation and years of service. Defined benefit 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 defined benefit plan members.

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

NOTE J - MPSERS CONTRIBUTIONS AND FUNDING STATUS

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

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. For retirement and OPEB benefits, the unfunded (overfunded) actuarial accrued liability as of the September 30, 2015 valuation will be amortized over a 21 year period for the 2015 fiscal year. The schedule below summarizes pension contribution rates in effect for fiscal year 2015.

Pension Contribution Rates		
Benefit Structure	Member	Employer
Basic	0.0 - 4.0%	22.52 - 23.07%
Member Investment Plan	3.0 - 7.0%	22.52 - 23.07%
Pension Plus	3.0 - 6.4%	21.99%
Defined Contribution	0.0%	17.72 - 18.76%

Required contributions to the pension plan from Hancock Public Schools were \$718,574 for the year ended September 30, 2015

HANCOCK PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS - June 30, 2016

NOTE K - NET PENSION LIABILITY

Proportionate Share of Hancock Public Schools' Net Pension Liability

At June 30, 2016, the Hancock Public Schools reported a liability of \$9,097,978 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 rolled forward from September 30, 2014. The District's proportionate share of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2015, the District's proportion was .03725 percent, which was a decrease of .00141 percent from its proportion measured as of September 30, 2014.

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2015, are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	28.0 %	5.9%
% Alternative Investment Pools	18.0 %	9.2%
International Equity	16.0 %	7.2%
Fixed Income Pools	10.5 %	.9%
Real Estate and Infrastructure Pools	10.0 %	4.3%
Absolute Return Pools	15.5 %	6.0%
Short Term Investment Pools	2.0 %	0.0%
Total	100.0 %	

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

Discount Rate

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

HANCOCK PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS - June 30, 2016

NOTE K - NET PENSION LIABILITY (Continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

As required by GASB Statement No. 68, the following presents the District’s proportionate share of the net pension liability, calculated using a discount rate of 8.0% (7.0% for the Pension Plus Plan), as well as what the District’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:

	1% Lower (7.0%)	Discount Rate (8.0%)	1% Higher (9.0%)
District's proportionate share of the net pension liability	\$ 11,729,626	\$ 9,097,978	\$ 6,879,391

Actuarial Valuations and Assumptions

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

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions

<u>Actuarial Assumptions</u>	
Valuation Date:	September 30, 2014
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	3.5%
Investment Rate of Return:	
-MIP and Basic Plans (Non-Hybrid)	8.0%
-Pension Plus Plan (Hybrid)	7.0%
Projected Salary Increases:	3.5 - 12.3%, including wage inflation at 3.5%
Cost-of-Living Pension Adjustments:	3% Annual Non-Compounded for MIP members

Mortality: RP-2000 Male and Female Combined Healthy Life Mortality Tables for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation for the System. For retirees 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

Notes:

- Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2015, is based on the results of an actuarial valuation date of September 30, 2014, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 4.7158
- Recognition period for assets in years is 5.0000
- Full actuarial assumptions are available in the 2015 MPSERS Comprehensive Annual Financial Report.

HANCOCK PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS - June 30, 2016

NOTE L - PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS

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 total pension expense of \$840,076. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>
Difference between expected and actual experience	\$ -	\$ 30,135
Changes of assumptions	224,011	-
Net difference between projections and actual earnings on pension plan investments	46,438	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	264,161	233
District's contributions subsequent to the measurement date	457,070	-
Total	<u>\$ 991,680</u>	<u>\$ 30,368</u>

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

<u>Year Ended September 30</u>	<u>Amount</u>
2016	\$ 96,632
2017	\$ 96,632
2018	\$ 84,436
2019	\$ 226,542

In addition, the contributions subsequent to the measurement date will be included as a reduction of the net pension liability in the next year.

NOTE M - 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, available here: <http://michigan.gov/orsschools/0,1607,7-206-36585---,00.html>.

NOTE N - PAYABLES TO THE PENSION PLAN

At June 30, 2016 the District reported a payable of \$252,367 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2016.

NOTE O - 403(b) RETIREMENT PLAN

The District has a 403(b) plan which is a qualified tax sheltered annuity plan for the benefit of eligible employees. The plan is self administered by the District with a plan year ending December 31. Participants can invest in annuity contracts or custodial accounts which invest in mutual funds. The District is not required to make contributions. Distributions are governed by IRS regulations.

HANCOCK PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS - June 30, 2016

NOTE P - RECONCILIATION OF MDE GRANT REPORTS

The amounts reported as current payments on MDE grant reports prepared by the State of Michigan, reconcile with the federal revenue on the Governmental Funds - Statement of Revenues, Expenditures and Changes in Fund Balances on page 16 as follows:

Total current payments per MDE Reports	\$ 323,439
USDA Commodities	20,216
Total Federal Financial Assistance	<u>\$ 343,655</u>

The District expended less than \$750,000 in Federal awards during the fiscal year ended June 30, 2016 and is exempt from Federal Single Audit requirements, thus a schedule of federal financial assistance was not prepared.

NOTE Q - CONTINGENT LIABILITIES

Risk Pool - Hancock Public Schools 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 was unable to obtain general liability insurance at a cost it considered to be economically justifiable. Hancock Public Schools joined together with other school districts currently operating a common risk management and insurance program. Hancock Public Schools pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$500,000 for each insured event.

Hancock Public Schools continues to carry commercial insurance for all other risks of loss. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The District is unable to provide an estimate of the amounts of additional assessments.

The MASB-SEG Property & Casualty Pool has published its own financial report for the year ended June 30, 2016, which can be obtained through the District.

NOTE R - SUBSEQUENT EVENTS

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through the date of the accompanying independent auditor's report, which is the date the financial statements were available to be issued.

Michigan Finance Authority: - On August 22, 2016, the District entered into three one year operating loan notes with Michigan Finance Authority. See Note H on page 27 for additional information.

NOTE S - UPCOMING ACCOUNTING PRONOUNCEMENTS

In June 2015, Governmental Accounting Standards Board (GASB), issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefit Plans Other than Pension Plans, which will be effective for the District's 2018 fiscal year. The Statement will require School Districts who participate in defined benefit other post-employment benefit (OPEB) plans to report a net OPEB liability in the statement of net position. The School District will be required to recognize on the statement of net position their proportionate share of the net OPEB liability related to its participation in the MPERS plan. There will be revised note disclosures and required supplementary information which will enhance the comparability and consistency of how governments calculate the OPEB liabilities and expense.

REQUIRED SUPPLEMENTARY INFORMATION

HANCOCK PUBLIC SCHOOLS
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance Final to Actual
	Original	Final		
Revenues				
Local sources	\$ 1,311,205	\$ 1,258,906	\$ 1,282,308	\$ 23,402
Intermediate sources	10,555	9,442	9,442	-
State sources	5,215,775	5,118,944	5,478,908	359,964
Federal sources	-	164,641	164,641	-
Total revenues	<u>6,537,535</u>	<u>6,551,933</u>	<u>6,935,299</u>	<u>383,366</u>
Expenditures				
Instruction	4,431,195	4,479,294	4,652,602	(173,308)
Supporting services	2,141,143	2,174,399	2,312,939	(138,540)
Total expenditures	<u>6,572,338</u>	<u>6,653,693</u>	<u>6,965,541</u>	<u>(311,848)</u>
Excess (deficiency) of revenues over expenditures	(34,803)	(101,760)	(30,242)	71,518
Other financing sources (uses)				
Incoming transfers - other schools	66,000	48,070	51,114	3,044
Prior period adjustment	-	-	(430)	(430)
Total other financing sources (uses)	<u>66,000</u>	<u>48,070</u>	<u>50,684</u>	<u>2,614</u>
Net change in fund balances	<u>\$ 31,197</u>	<u>\$ (53,690)</u>	20,442	<u>\$ 74,132</u>
Fund balances - Beginning of year			<u>291,487</u>	
Fund balances - End of year			<u>\$ 311,929</u>	

**HANCOCK PUBLIC SCHOOLS
PENSION REQUIREMENTS - GASB 68
Year Ended June 30, 2016**

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY**

Michigan Public School Employees Retirement Plan
Last Two Fiscal Years (Amounts were determined as of 9/30 of each fiscal year)

	9/30/2014	9/30/2015
A. District's proportion of net pension liability	0.03584 %	0.03725 %
B. District's proportionate share of net pension liability	\$ 7,893,347	\$ 9,097,978
C. District's covered-employee payroll	\$ 3,108,822	\$ 3,224,393
D. District's proportionate share of net pension liability as a percentage of its covered-employee payroll	39 %	35 %
E. Plan fiduciary net position as a percentage of total pension liability	66.20 %	63.17 %

SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS

Michigan Public School Employees Retirement Plan
Last Two Fiscal Years (Amounts were determined as of 6/30 of each fiscal year)

	6/30/2015	6/30/2016
A. Statutorily required contributions	\$ 674,610	\$ 628,399
B. Contributions in relation to statutorily required contributions	674,610	628,399
C. Contribution deficiency (excess)	\$ -	\$ -
D. District's covered-employee payroll	\$ 3,173,132	\$ 3,179,093
E. Contributions as a percentage of covered-employee	21 %	20 %

HANCOCK PUBLIC SCHOOLS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - June 30, 2016

NOTE A - CHANGE OF BENEFIT TERMS

There were no changes of benefit terms in 2015.

NOTE B - CHANGE OF ASSUMPTIONS

There were no changes of benefit assumptions in 2015.

OTHER SUPPLEMENTAL FINANCIAL INFORMATION

HANCOCK PUBLIC SCHOOLS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
Year Ended June 30, 2016

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues			
Local sources			
Taxes	\$ 1,058,906	\$ 1,031,427	\$ (27,479)
Penalties and interest	10,000	9,679	(321)
Earnings on investments	500	843	343
Rentals	20,000	21,825	1,825
Athletics	-	36,461	36,461
Contributions	4,500	700	(3,800)
Day care/latch key fees	80,000	80,692	692
Miscellaneous	85,000	100,681	15,681
Total local sources	<u>1,258,906</u>	<u>1,282,308</u>	<u>23,402</u>
Intermediate sources	<u>9,442</u>	<u>9,442</u>	<u>-</u>
State sources			
Unrestricted grants			
Unrestricted state aid	<u>4,731,573</u>	<u>4,721,226</u>	<u>(10,347)</u>
Total unrestricted grants	<u>4,731,573</u>	<u>4,721,226</u>	<u>(10,347)</u>
Restricted grants			
MPERS cost offset	44,084	400,137	356,053
Special education	159,034	168,830	9,796
Early Literacy Target Insurance	9,735	9,735	-
At-risk	152,609	152,535	(74)
Other grants	21,909	26,445	4,536
Total restricted grants	<u>387,371</u>	<u>757,682</u>	<u>370,311</u>
Total state sources	<u>5,118,944</u>	<u>5,478,908</u>	<u>359,964</u>
Federal sources			
Title I	121,392	121,392	-
Title II	43,249	43,249	-
Total federal sources	<u>164,641</u>	<u>164,641</u>	<u>-</u>
Total revenues	<u>6,551,933</u>	<u>6,935,299</u>	<u>383,366</u>
Expenditures			
Instruction			
Basic program			
Elementary school	1,778,630	1,867,365	(88,735)
Middle school	743,152	796,902	(53,750)
High school	1,300,775	1,250,922	49,853
Total basic program	<u>3,822,557</u>	<u>3,915,189</u>	<u>(92,632)</u>
Added needs			
Special education	491,997	476,604	15,393
Compensatory education	146,640	138,701	7,939
At-risk	18,100	122,108	(104,008)
Total added needs	<u>656,737</u>	<u>737,413</u>	<u>(80,676)</u>
Total instruction	<u>4,479,294</u>	<u>4,652,602</u>	<u>(173,308)</u>

HANCOCK PUBLIC SCHOOLS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES (Continued)
Year Ended June 30, 2016

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Supporting services			
Pupil			
Guidance	\$ 120,745	\$ 157,500	\$ (36,755)
Instructional staff			
Library	22,150	18,379	3,771
General administration			
Board of education	41,200	41,790	(590)
Executive administration	226,888	240,233	(13,345)
Total general administration	<u>268,088</u>	<u>282,023</u>	<u>(13,935)</u>
School administration			
Office of principal - Elementary school	168,993	182,575	(13,582)
Office of principal - Middle school	123,612	129,235	(5,623)
Office of principal - High school	143,478	149,412	(5,934)
Total school administration	<u>436,083</u>	<u>461,222</u>	<u>(25,139)</u>
Business-fiscal services	116,675	115,630	1,045
Operations & maintenance	685,547	679,419	6,128
Pupil transportation	260,000	260,744	(744)
Athletics	119,373	183,376	(64,003)
Technical support	<u>77,000</u>	<u>87,861</u>	<u>(10,861)</u>
Total supporting services	<u>2,105,661</u>	<u>2,246,154</u>	<u>(140,493)</u>
Community services	<u>68,738</u>	<u>66,785</u>	<u>1,953</u>
Total expenditures	<u>6,653,693</u>	<u>6,965,541</u>	<u>(311,848)</u>
Excess (deficiency) of revenues over expenditures	(101,760)	(30,242)	71,518
Other financing sources (uses)			
Incoming transfers - other schools	48,070	51,114	3,044
Prior period adjustment	<u>-</u>	<u>(430)</u>	<u>(430)</u>
Net change in fund balances	<u>\$ (53,690)</u>	20,442	<u>\$ 74,132</u>
Fund balances - Beginning of year		<u>291,487</u>	
Fund balances - End of year		<u>\$ 311,929</u>	

HANCOCK PUBLIC SCHOOLS
FOOD SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
Year Ended June 30, 2016

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues			
Local sources			
Adult lunches	\$ 5,000	\$ -	\$ (5,000)
A-La-Carte	100	-	(100)
Student lunches	114,350	122,341	7,991
Earnings on investments	150	206	56
Other food sales	500	14,408	13,908
Total local sources	<u>120,100</u>	<u>136,955</u>	<u>16,855</u>
State sources	<u>15,000</u>	<u>13,172</u>	<u>(1,828)</u>
Federal sources			
School lunch program	170,000	158,798	(11,202)
USDA entitlements	10,000	20,216	10,216
Total federal sources	<u>180,000</u>	<u>179,014</u>	<u>(986)</u>
Total revenues	<u>315,100</u>	<u>329,141</u>	<u>14,041</u>
Expenditures			
Salaries	99,500	74,066	25,434
Employee benefits	55,100	41,118	13,982
Purchased services	750	39,127	(38,377)
Supplies, materials, and other	158,000	183,495	(25,495)
Total expenditures	<u>313,350</u>	<u>337,806</u>	<u>(24,456)</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 1,750</u>	(8,665)	<u>\$ 38,497</u>
Fund balances - Beginning of year		<u>(100,647)</u>	
Fund balances - End of year		<u>\$ (109,312)</u>	

COMMUNICATIONS SECTION

RUKKILA | NEGRO AND ASSOCIATES

Certified Public Accountants, PC

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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
Hancock Public Schools
Hancock, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hancock Public Schools as of and for the year then ended June 30, 2016, which collectively comprise Hancock Public Schools's basic financial statements and have issued our report thereon dated October 26, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting 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 the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance 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.

*Rukkila, Negro & Associates,
Certified Public Accountants, PC*

October 26, 2016

RUKKILA | NEGRO AND ASSOCIATES

Certified Public Accountants, PC

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COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

To the Board of Education
Hancock Public Schools
Hancock, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate fund information of Hancock Public Schools for the year ended June 30, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 11, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Hancock Public Schools are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2016. We noted no transactions entered into by the Hancock Public Schools during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Management's estimate of the useful lives of fixed assets, used to calculate depreciation, is based on the estimated useful lives of certain classes of assets. We evaluated the key factors and assumptions used to develop the useful lives in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 26, 2016.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

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

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

Restriction on Use

This information is intended solely for the use of the board and management of Hancock Public Schools and is not intended to be, and should not be, used by anyone other than these specified parties.

We appreciate your business, thank you.

*Rukkila, Negro & Associates,
Certified Public Accountants, PC*

October 26, 2016

**HANCOCK PUBLIC SCHOOLS
COMMENTS AND RECOMMENDATIONS
JUNE 30, 2016**

During our audit we became aware of opportunities for strengthening internal controls and operating efficiencies. The following items summarize our comments and suggestions regarding those matters.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

QuickBooks Accounting Records - Repeated Comment

Each level of education (elementary, middle and secondary schools) uses accounting software to record agency fund (student) activities. In all cases, one individual records receipts, deposits the receipts, prepares checks and reconciles the bank accounts, creating a lack of segregation of duties in the receipt and disbursement accounting systems.

It is recommended at a minimum the District should:

- The board should be receiving reports and reviewing quarterly, and the superintendent/principals should receive and review reports monthly.
- The District's contracted business services should review the bank reconciliation on a monthly basis.

Timely Review of Bank Statements - Repeated Comment

We noted that bank statements in some areas are not being reviewed and reconciled on a timely basis. We recommend each account be reconciled before the following month is complete.

Budget

The Uniform Budgeting Act requires entities to approve an operating budget prior to the beginning of the year and that all amendments to budget made throughout the year are approved. Districts shall not incur expenditures in excess of the amount appropriated. The approved budgets of these funds were adopted on an activity and/or program level. During the year ended June 30, 2016, the District incurred expenditures which were in excess of the amounts appropriated as shown within the required supplemental financial information.

The District should control expenditures in each governmental fund so as not to exceed the amounts appropriated. When this is not possible, the budget should be amended accordingly. We recommend that the District review the provisions of Public Act 2 of 1968, as amended, to determine proper compliance procedures.