

# **Hartland Consolidated Schools**

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**Financial Report  
with Supplemental Information  
June 30, 2016**

# Hartland Consolidated Schools

## Contents

<b>Independent Auditor's Report</b>	1-2
<b>Management's Discussion and Analysis</b>	3-10
<b>Basic Financial Statements</b>	
Government-wide Financial Statements:	
Statement of Net Position	11
Statement of Activities	12
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	13
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	14
Statement of Revenue, Expenditures, and Changes in Fund Balances	15
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Fiduciary Funds:	
Statement of Fiduciary Net Position	17
Statement of Changes in Fiduciary Net Position	18
Notes to Financial Statements	19-42
<b>Required Supplemental Information</b>	43
Budgetary Comparison Schedule - General Fund	44
Schedule of Hartland Consolidated Schools' Proportionate Share of the Net Pension Liability Michigan Public School Employees Retirement System Determined as of the Plan Year Ended September 30	45
Schedule of Hartland Consolidated Schools' Contributions Michigan Public School Employees' Retirement System Determined as of the Year Ended June 30	46
Note to Required Supplemental Information Schedules	47
<b>Other Supplemental Information</b>	48
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - Combined Nonmajor Governmental Funds	49
Nonmajor Governmental Funds:	
Combining Balance Sheet	50-51
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	52-53
Schedule of Bonded Indebtedness	54-55
<b>Federal Awards Supplemental Information</b>	Issued Under Separate Cover

## Independent Auditor's Report

To the Board of Education  
Hartland Consolidated Schools

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hartland Consolidated Schools as of and for the year ended June 30, 2016 and the related notes to the financial statements, which collectively comprise Hartland Consolidated Schools' 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 an opinion 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 opinion.

### ***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 Hartland Consolidated Schools as of June 30, 2016 and the respective changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Education  
Hartland Consolidated Schools

**Required Supplemental Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the major fund budgetary comparison schedules, and pension system schedules of funding progress and employer contributions, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which 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 supplemental 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 Hartland Consolidated Schools' basic financial statements. The other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplemental information, as identified in the table of contents, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 other supplemental information, as identified in the table of contents, 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 our report dated October 13, 2016 on our consideration of Hartland Consolidated Schools' 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 the 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 Hartland Consolidated Schools' internal control over financial reporting and compliance.

*Plante & Moran, PLLC*

October 13, 2016

# Hartland Consolidated Schools

## Management's Discussion and Analysis

This section of Hartland Consolidated Schools' (the "School District") annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2016. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

### Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Hartland Consolidated Schools financially as a whole. The government-wide financial statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the government-wide financial statements by providing information about the School District's most significant funds - the General Fund, the 2010 Debt Service Fund, and the 2015 Refunding Series B Debt Service Fund, with all other funds presented in one column as nonmajor funds. The remaining statements, the statement of fiduciary net position and the statement of changes in fiduciary net position, present financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

Management's Discussion and Analysis (MD&A)  
(Required Supplemental Information)

### Basic Financial Statements

Government-wide Financial Statements      Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)

Budgetary Information for Major Funds

Pension Plan Information

Other Supplemental Information

# Hartland Consolidated Schools

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## Management's Discussion and Analysis (Continued)

### ***Reporting the School District as a Whole - Government-wide Financial Statements***

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net position and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid. These two statements report the School District's net position - the difference between the assets and deferred outflows and the liabilities and deferred inflows, as reported in the statement of net position - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net position - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenue and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District. The statement of net position and the statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, support services, community services, athletics, and food services. Property taxes, unrestricted state aid (foundation allowance revenue), and state and federal grants finance most of these activities.

### ***Reporting the School District's Most Significant Funds - Fund Financial Statements***

The School District's fund financial statements provide detailed information about the most significant funds - not the School District as a whole. Some funds are required to be established by state law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Food Service Fund is an example) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects). The governmental funds of the School District use the following accounting approach:

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

# Hartland Consolidated Schools

## Management's Discussion and Analysis (Continued)

### *The School District as Trustee - Reporting the School District's Fiduciary Responsibilities*

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

### The School District as a Whole

Recall that the statement of net position provides the perspective of the School District as a whole. Table I provides a summary of the School District's net position as of 2016 and 2015:

TABLE I	Governmental Activities	
	June 30	
	2016	2015
	(in millions)	
<b>Assets</b>		
Current and other assets	\$ 18.2	\$ 16.6
Capital assets	<u>128.1</u>	<u>132.7</u>
Total assets	146.3	149.3
<b>Deferred Outflows of Resources</b>		
Deferred charges on bond refunding	1.0	-
Deferred outflows related to pensions	<u>9.3</u>	<u>4.3</u>
Total deferred outflows of resources	10.3	4.3
<b>Liabilities</b>		
Current liabilities	11.6	10.4
Noncurrent liabilities - Due within one year	17.1	6.5
Noncurrent liabilities - Due in more than one year	141.2	153.1
Net pension liability	<u>73.8</u>	<u>64.9</u>
Total liabilities	243.7	234.9
<b>Deferred Inflows of Resources</b>	<u>2.3</u>	<u>4.8</u>
<b>Net Position</b>		
Invested in capital assets - Net of related debt	(28.5)	(15.4)
Restricted	2.4	1.3
Unrestricted	<u>(63.3)</u>	<u>(72.0)</u>
Total net position	<u>\$ (89.4)</u>	<u>\$ (86.1)</u>

# Hartland Consolidated Schools

## Management's Discussion and Analysis (Continued)

The above analysis focuses on the net position (see Table 1). The change in net position (see Table 2) of the School District's governmental activities is discussed below. The School District's net position was (\$89.4) million at 2016. Capital assets, net of related debt totaling (\$28.5) million, compares the original cost, less depreciation of the School District's capital assets, to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use the net position for day-to-day operations. The remaining amount of net position, (\$63.3) million, was unrestricted.

The (\$63.3) million in unrestricted net position of governmental activities represents the accumulated results of all past years' operations. The unrestricted net position balance enables the School District to meet working capital and cash flow requirements as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities (Table 2), which shows the changes in net position for fiscal years ended June 30, 2016 and 2015:

TABLE 2

	Governmental Activities	
	Year Ended June 30	
	2016	2015
	(in millions)	
<b>Revenue</b>		
Program revenue:		
Charges for services	\$ 4.5	\$ 4.4
Operating grants and contributions	3.1	5.4
General revenue:		
Property taxes	13.9	13.2
State foundation allowance	39.3	38.5
Other	0.4	0.2
Total revenue	61.2	61.7



# Hartland Consolidated Schools

## Management's Discussion and Analysis (Continued)

TABLE 2 (Continued)

	Governmental Activities	
	Year Ended June 30	
	2016	2015
	(in millions)	
<b>Functions/Program Expenses</b>		
Instruction	\$ 31.6	\$ 30.8
Support services	15.1	15.3
Athletics	0.9	0.9
Food services	1.4	1.3
Community services	3.0	2.9
Interest on long-term debt	6.1	6.9
Debt issuance costs	0.6	-
Depreciaton (unallocated)	5.8	5.8
Total functions/program expenses	64.5	63.9
<b>Decrease in Net Position</b>	(3.3)	(2.2)
<b>Net Position</b> - Beginning of year	(86.1)	(83.9)
<b>Net Position</b> - End of year	<u>\$ (89.4)</u>	<u>\$ (86.1)</u>

As reported in the statement of activities, the cost of all of our governmental activities this year was \$64.5 million. Certain activities were partially funded from those who benefited from the programs, \$4.5 million, or by other governments and organizations that subsidized certain programs with grants and contributions, \$3.1 million. We paid for the remaining "public benefit" portion of our governmental activities with \$13.9 million in taxes, \$39.3 million in State foundation allowance, and with our other revenue, i.e., interest and general entitlements.

The School District experienced a decrease in net position of \$3.3 million. A majority of the decrease is attributed to an increase in liabilities and deferred inflows related to the School District's share of the net pension liability.

As discussed above, the net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted state aid constitute the vast majority of school district operating revenue sources, the Board of Education and administration must annually evaluate the needs of the School District and balance those needs with State-prescribed available unrestricted resources.

### The School District's Funds

As we noted earlier, the School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

# Hartland Consolidated Schools

## Management's Discussion and Analysis (Continued)

As the School District completed this year, the governmental funds reported a combined fund balance of \$7.5 million, which is an increase of \$0.4 million from last year. The primary reason for the increase was due to the increase in the fund balance of the 2010 Debt Service Fund, which operates quite differently than conventional tax-exempt bonds. The School District is required to levy taxes and invest the proceeds until the bond is paid in full at maturity, which will in effect continue to increase the School District's net assets until the maturity date. The increase in restricted assets offset the excess of expenditures over revenue reported in other funds.

### **General Fund Budgetary Highlights**

Over the course of the year, the School District revises its budget as it attempts to deal with unexpected changes in revenue and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was adopted June 27, 2016. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

The School District did amend the General Fund in June 2016. Ultimately, the "actual versus budget" resulted in a (0.3) percent variance in revenue (\$137,561 over budget), a (0.3) percent variance in expenditures (\$161,896 under budget), and a (1.6) percent variance in other financing sources (\$5,280 over budget). The combination of these three items improved the fund balance position at June 30, 2016 by \$304,737, from an amended budget fund balance of \$2,877,262 to an actual year-end fund balance of \$3,181,999.

As noted above, revenue changed very little from the amended budget to the actual at the end of the year. There were changes from the original revenue budget to the amended budget totaling an increase of \$783,323. Most of the increase relates to a significantly higher section 147c allocation from the State of Michigan than was originally budgeted.

Changes in budgeted expenditures from the original budget to the amended budget totaled an increase of \$909,665. A majority of the increase related to the offsetting expense recorded for the higher section 147c revenue described above. The remainder of the increase consisted of several line items that were adjusted.

### **Capital Assets and Debt Administration**

#### ***Capital Assets***

As of 2016, the School District had \$206.0 million invested in a broad range of capital assets, including land, buildings, vehicles, furniture, and equipment. This amount represents a net decrease of approximately \$0.2 million, or 0.1 percent, from last year.

# Hartland Consolidated Schools

## Management's Discussion and Analysis (Continued)

	2016	2015
Land	\$ 2,419,502	\$ 2,419,502
Buildings and building improvements	176,887,065	176,763,177
Buses and other vehicles	5,728,631	6,329,925
Furniture and equipment	<u>21,000,233</u>	<u>20,728,292</u>
Total capital assets	206,035,431	206,240,896
Less accumulated depreciation	<u>(77,924,204)</u>	<u>(73,529,929)</u>
Net capital assets	<u><b>\$ 128,111,227</b></u>	<u><b>\$ 132,710,967</b></u>

This year's additions of \$1.3 million are primarily a result of 2010 Bond spending and the purchase of new buses. The additions were offset by disposals of \$1.5 million of vehicles.

### Debt

At the end of this year, the School District had \$150.9 million in bonds outstanding versus \$104.2 million in the previous year - a change of 44.8 percent. The increase was primarily a result of the School District refunding the outstanding School Bond Loan and School Loan Revolving Fund balances into general obligation debt. Outstanding bonds as of the end of the year consisted of the following:

	2016	2015
General obligation bonds	<u><b>\$ 150,925,000</b></u>	<u><b>\$ 104,185,000</b></u>

The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit. The School District's had no outstanding unqualified general obligation debt.

Other obligations include notes, School Bond Loan Fund, accrued vacation pay, and capital leases. We present more detailed information about our long-term liabilities in the notes to the financial statements.

# **Hartland Consolidated Schools**

## **Management's Discussion and Analysis (Continued)**

### **Economic Factors and Next Year's Budgets and Rates**

Our elected officials and administration consider many factors when setting the School District's 2016-2017 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. The blended count for the 2016-2017 fiscal year is 90 percent and 10 percent of the October 2016 and February 2016 student counts, respectively. Additionally, the General Fund's state aid revenue is expected to increase by \$120 per pupil. With few exceptions, under state law, the School District cannot access additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund the foundation allowance.

From a revenue perspective, the 2016-2017 year will find the School District with slightly more dollars available (a budgeted 1.9 percent increase, or \$997,488). As noted above, we have budgeted stable enrollment combined with an increased per-pupil allowance. The School District also expects additional revenue to be generated from the county-wide special education millage that passed in November 2015. Together, these items account for the slight increase in revenue.

Expenditures are budgeted to increase during the 2016-17 year by approximately 0.3 percent, or \$188,531. This is mostly due to higher principal and interest payments on bus lease obligations as well as minor inflationary increases across all categories. Although total expenses are up, there is a budgeted salary reduction for employees which is estimated at 2 percent. Ultimately, expenditures are budgeted to exceed revenue by \$231,977 and the School District's fund balance will remain at 5 percent of expenditures.

On a positive note, the School District's General Fund fund balance will remain at a level that will enable the School District to continue to maintain quality educational programs and remain a "school of choice" in our region. Additionally, our employee labor contracts all call for concessions, significant if necessary, to enable the School District to maintain a minimum 5 percent fund balance going forward. These contracts are in place through the 2017-2018 school year.

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

This financial report is intended to provide our taxpayers, parents, and investors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the business office.

# Hartland Consolidated Schools

## Statement of Net Position June 30, 2016

	Governmental Activities
<b>Assets</b>	
Cash (Note 3)	\$ 5,488,365
Receivables (Note 4)	7,967,839
Inventories	143,499
Prepaid costs	641,972
Restricted assets (Note 8)	3,899,127
Capital assets - Net (Note 5)	<u>128,111,227</u>
Total assets	146,252,029
<b>Deferred Outflows of Resources</b>	
Deferred charges on bond refunding (Note 7)	1,008,947
Deferred outflows related to pensions (Note 10)	<u>9,328,268</u>
Total deferred outflows of resources	<u>10,337,215</u>
Total assets and deferred outflows of resources	156,589,244
<b>Liabilities</b>	
Accounts payable	358,485
Accrued payroll-related liabilities	5,025,936
State aid anticipation note (Note 11)	4,226,797
Accrued interest	889,877
Due to other governmental units	926,233
Unearned revenue (Note 4)	137,265
Noncurrent liabilities (Note 7):	
Due within one year	17,065,223
Due in more than one year	141,244,595
Net pension liability (Note 10)	<u>73,836,008</u>
Total liabilities	243,710,419
<b>Deferred Inflows of Resources</b> - Deferred inflows (Notes 1 and 10)	<u>2,258,180</u>
Total total liabilities and deferred inflows of resources	<u>245,968,599</u>
<b>Net Position</b>	
Net investment in capital assets	(28,540,921)
Restricted:	
Debt service	1,835,410
Capital projects	596,344
Unrestricted	<u>(63,270,188)</u>
Total net position	<u><b>\$ (89,379,355)</b></u>

# Hartland Consolidated Schools

## Statement of Activities Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenue		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Position
				Governmental Activities
Primary government - Governmental activities:				
Instruction	\$ 31,601,928	\$ 592,665	\$ 1,150,664	\$ (29,858,599)
Support services	15,078,027	-	549,009	(14,529,018)
Athletics	866,411	267,861	-	(598,550)
Food services	1,425,386	1,049,238	491,518	115,370
Community services	3,034,320	2,579,726	-	(454,594)
Interest	6,100,457	-	934,233	(5,166,224)
Debt issuance costs	597,447	-	-	(597,447)
Depreciation expense (unallocated)	5,750,403	-	-	(5,750,403)
<b>Total primary government</b>	<b>\$ 64,454,379</b>	<b>\$ 4,489,490</b>	<b>\$ 3,125,424</b>	<b>(56,839,465)</b>
General revenue:				
Taxes:				
Property taxes, levied for general purposes				4,239,398
Property taxes, levied for debt service				9,658,490
State aid not restricted to specific purposes				39,325,487
Interest and investment earnings				175,412
Loss on the sale of capital assets				(547)
Other				192,118
<b>Total general revenue</b>				<b>53,590,358</b>
<b>Change in Net Position</b>				<b>(3,249,107)</b>
<b>Net Position - Beginning of year</b>				<b>(86,130,248)</b>
<b>Net Position - End of year</b>				<b>\$ (89,379,355)</b>

# Hartland Consolidated Schools

## Governmental Funds Balance Sheet June 30, 2016

	Combined General Fund	2010 Debt Service Fund	2015 Refunding, Series B Debt Service Fund	Nonmajor Funds	Total Governmental Funds
<b>Assets</b>					
Cash (Note 3)	\$ 5,240,508	\$ -	\$ -	\$ 247,857	\$ 5,488,365
Receivables (Note 4)	7,835,580	437	232	131,590	7,967,839
Due from other funds (Note 6)	6,957	-	-	-	6,957
Inventories	133,168	-	-	10,331	143,499
Prepaid costs	641,972	-	-	-	641,972
Restricted assets (Note 8)	-	2,061,697	91,109	1,746,321	3,899,127
<b>Total assets</b>	<b>\$ 13,858,185</b>	<b>\$ 2,062,134</b>	<b>\$ 91,341</b>	<b>\$ 2,136,099</b>	<b>\$ 18,147,759</b>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balances</b>					
<b>Liabilities</b>					
Accounts payable	\$ 265,525	\$ -	\$ -	\$ 92,960	\$ 358,485
Accrued payroll-related liabilities	4,997,452	-	-	28,484	5,025,936
State aid anticipation note (Note 11)	4,226,797	-	-	-	4,226,797
Unearned revenue (Note 4)	99,559	-	-	37,706	137,265
Due to other governmental units	926,233	-	-	-	926,233
Due to other funds (Note 6)	-	-	-	6,957	6,957
<b>Total liabilities</b>	<b>10,515,566</b>	<b>-</b>	<b>-</b>	<b>166,107</b>	<b>10,681,673</b>
<b>Deferred Inflows of Resources -</b>					
Unavailable revenue (Note 4)	3,285	-	-	-	3,285
<b>Total liabilities and deferred inflows of resources</b>	<b>10,518,851</b>	<b>-</b>	<b>-</b>	<b>166,107</b>	<b>10,684,958</b>
<b>Fund Balances</b>					
Nonspendable:					
Inventory	133,168	-	-	10,331	143,499
Prepaid assets	641,972	-	-	-	641,972
Restricted:					
Capital projects	-	-	-	1,203,862	1,203,862
Debt service	-	2,062,134	91,341	571,812	2,725,287
Food service	-	-	-	183,987	183,987
Assigned - Budgeted use of fund balance in subsequent year	204,005	-	-	-	204,005
Unassigned	2,360,189	-	-	-	2,360,189
<b>Total fund balances</b>	<b>3,339,334</b>	<b>2,062,134</b>	<b>91,341</b>	<b>1,969,992</b>	<b>7,462,801</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 13,858,185</b>	<b>\$ 2,062,134</b>	<b>\$ 91,341</b>	<b>\$ 2,136,099</b>	<b>\$ 18,147,759</b>

The Notes to Financial Statements are an  
Integral Part of this Statement.

# Hartland Consolidated Schools

## Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position June 30, 2016

<b>Fund Balance Reported in Governmental Funds</b>	\$	7,462,801
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the funds:		
Cost of capital assets	\$ 206,035,431	
Accumulated depreciation	<u>(77,924,204)</u>	128,111,227
Deferred outflows related to pension payments made subsequent to the measurement date		9,328,268
Bonds (including premium) and School Loan Revolving Fund payable:		
Bonds payable including premium	(156,381,480)	
Compensated absences	(41,033)	
Notes payable	(1,887,305)	
Deferred charges on bond refunding	<u>1,008,947</u>	(157,300,871)
Accrued interest payable is not included as a liability in the governmental funds		(889,877)
Grants and other receivables that are collected after year end, such that they are not available to pay bills outstanding as of year end, are not recognized in the funds		3,285
Net pension obligations do not present a claim on current financial resources and are not reported as fund liabilities		(73,836,008)
Deferred inflows related to pension investment returns and changes in assumptions are not reported in the governmental funds		<u>(2,258,180)</u>
<b>Net Position of Governmental Activities</b>	<b>\$</b>	<b><u>(89,379,355)</u></b>



# Hartland Consolidated Schools

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2016

	Combined General Fund	2010 Debt Service Fund	2015 Refunding, Series B Debt Service Fund	Nonmajor Funds	Total Governmental Funds
<b>Revenue</b>					
Local sources	\$ 7,758,886	\$ 2,019,374	\$ 565,358	\$ 8,411,290	\$ 18,754,908
State sources	41,613,593	3,686	1,124	63,750	41,682,153
Federal sources	448,128	934,233	-	443,873	1,826,234
Other	959,132	-	-	-	959,132
Total revenue	50,779,739	2,957,293	566,482	8,918,913	63,222,427
<b>Expenditures</b>					
Current:					
Instruction	31,973,669	-	-	-	31,973,669
Support services	15,170,299	-	-	-	15,170,299
Athletics	871,511	-	-	-	871,511
Food services	-	-	-	1,436,228	1,436,228
Community services	3,067,820	-	-	-	3,067,820
Debt service:					
Principal	216,123	450,000	55,445,000	5,300,000	61,411,123
Interest	63,285	1,655,559	477,101	3,200,276	5,396,221
Other	-	7,718	322,647	267,082	597,447
Capital outlay	1,114,276	-	-	315,945	1,430,221
Total expenditures	52,476,983	2,113,277	56,244,748	10,519,531	121,354,539
<b>Excess of Revenue (Under) Over Expenditures</b>	(1,697,244)	844,016	(55,678,266)	(1,600,618)	(58,132,112)
<b>Other Financing Sources (Uses)</b>					
Proceeds from sale of capital assets	150,134	-	-	-	150,134
Payment to escrow agent	-	-	-	(37,776,178)	(37,776,178)
Transfers in (Note 6)	49,128	-	-	57,571	106,699
Transfers out (Note 6)	-	(56,785)	(393)	(49,521)	(106,699)
Proceeds from issuance of bonds	-	-	55,770,000	33,385,000	89,155,000
Premium on debt issued	-	-	-	4,662,564	4,662,564
School Bond Loan Revolving Fund proceeds	-	246,497	-	1,260,910	1,507,407
Proceeds from bus note	839,546	-	-	-	839,546
Total other financing sources	1,038,808	189,712	55,769,607	1,540,346	58,538,473
<b>Net Change in Fund Balances</b>	(658,436)	1,033,728	91,341	(60,272)	406,361
<b>Fund Balances - Beginning of year</b>	3,997,770	1,028,406	-	2,030,264	7,056,440
<b>Fund Balances - End of year</b>	<u>\$ 3,339,334</u>	<u>\$ 2,062,134</u>	<u>\$ 91,341</u>	<u>\$ 1,969,992</u>	<u>\$ 7,462,801</u>

The Notes to Financial Statements are an Integral Part of this Statement.

# Hartland Consolidated Schools

## Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2016

<b>Net Change in Fund Balances - Total Governmental Funds</b>	\$	406,361
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:		
Depreciation expense	\$ (5,750,403)	
Capitalized capital outlay	<u>1,301,344</u>	(4,449,059)
Governmental funds report proceeds from the sale of assets as revenue; in the statement of activities, these are recorded net of carrying value of the disposed assets		
		(150,681)
Revenue is reported in the statement of activities when earned; it is not reported in the funds until collected or collectible within 60 days of year end		
		(3,751)
Bond and note proceeds provide financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of activities		
		(91,501,953)
Underwriter's premium reported as expenditures/revenue in the funds and amortized in the statement of activities		
		(4,662,564)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)		
		99,187,301
Deferred interest is reported as an income in the governmental funds, but is capitalized and amortized in the statement of activities		
		(201,789)
Amortization of premiums of long-term debt is amortized on the statement of activities		
		115,326
Interest expense is recorded in the statement of activities when incurred; it is not reported in the governmental funds until paid		
		(617,773)
Change in pension expense related to deferred items		
		639,613
Compensated absences are recorded when earned in the statement of activities. In the current year, more was earned than paid out		
		2,719
Revenue in support of pension contributions made subsequent to measurement date		
		<u>(2,012,857)</u>
<b>Change in Net Position of Governmental Activities</b>	<b>\$</b>	<b><u>(3,249,107)</u></b>

# Hartland Consolidated Schools

## Fiduciary Funds Statement of Fiduciary Net Position June 30, 2016

	Student Activities Agency Fund	Private Purpose Trust - 5/3 Bank	Private Purpose Trust - Ameritrust	Private Purpose Trust - Swann Scholarship
<b>Assets</b> - Cash and investments	<u>\$ 756,274</u>	\$ 27,021	\$ 27,742	\$ 46,567
<b>Liabilities</b> - Due to student groups and other	<u>\$ 756,274</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net Position</b> - Reserved for scholarships/projects awarded		<u>\$ 27,021</u>	<u>\$ 27,742</u>	<u>\$ 46,567</u>

## Hartland Consolidated Schools

### Fiduciary Funds - Private Purpose Trust Statement of Changes in Fiduciary Net Position Year Ended June 30, 2016

	<u>5/3 Bank</u>	<u>Ameritrust</u>	<u>Swann Scholarship</u>
<b>Additions</b> - Interest and contributions	\$ 19,751	\$ 20,748	\$ 131
<b>Deductions</b> - Scholarships/Projects awarded	<u>16,810</u>	<u>16,450</u>	<u>5,000</u>
<b>Change in Net Position</b>	2,941	4,298	(4,869)
<b>Net Position</b> - Beginning of year	<u>24,080</u>	<u>23,444</u>	<u>51,436</u>
<b>Net Position</b> - End of year	<u>\$ 27,021</u>	<u>\$ 27,742</u>	<u>\$ 46,567</u>

# Hartland Consolidated Schools

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## Notes to Financial Statements June 30, 2016

### Note I - Nature of Business and Significant Accounting Policies

The accounting policies of Hartland Consolidated Schools (the "School District") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the School District:

#### **Reporting Entity**

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

#### **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 nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's government-wide activities are considered governmental activities.

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

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.

# Hartland Consolidated Schools

## Notes to Financial Statements June 30, 2016

### Note 1 - Nature of Business and Significant Accounting Policies (Continued)

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

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

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

When an expense is incurred for purposes for which both restricted and unrestricted net position or fund balance are available, the School District's policy is to first apply restricted resources. When an expense is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it is the School District's policy to spend funds in this order: committed, assigned, and unassigned.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted state aid.

**Fund Financial Statements** - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. Revenue not meeting this definition is classified as a deferred inflow of resources. For this purpose, the School District considers revenue to be available if it is 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 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 School District.

# Hartland Consolidated Schools

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## Notes to Financial Statements June 30, 2016

### Note I - Nature of Business and Significant Accounting Policies (Continued)

Fiduciary fund statements are also reported using the economic resources measurement focus and the accrual basis of accounting.

The School District reports the following major governmental funds:

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

**2010 Debt Service Fund** - The School District utilizes the 2010 Debt Service Fund to record tax, interest and other revenue for payment of interest, principal, and other expenditures on the 2010 School Building and Site Bonds, Series B.

**2015 Refunding, Series B Debt Service Fund** - In November 2015, the School District refunded its School Bond Loan and School Loan Revolving Funds with the 2015 Refunding Bonds, Series B. The School District utilizes the debt service fund to record tax, interest and other revenue for payment of interest, principal, and other expenditures on the bonded debt.

Additionally, the School District reports the following fund types:

**Special Revenue Funds** - Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted to expenditure for specified purposes. The School District's only special revenue fund is the Food Services Fund. The Food Services Fund's primary source of revenue is from federal grants and customer sales. Any operating deficit generated by food service activities is the responsibility of the General Fund.

**2010 Capital Projects Fund** - The 2010 Capital Projects Fund is used to record bond proceeds or other revenue and the disbursement of invoices specifically designated for remodeling buildings, acquiring and installing technology equipment, purchasing school buses, and developing and improving athletic fields and facilities, playgrounds, and sites. The fund operates until the purpose for which it was created is accomplished

**Debt Service Funds** - The various debt service funds are used to record tax, interest, and other revenue for payment of interest, principal, and other expenditures on the related bond issue.

# Hartland Consolidated Schools

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## Notes to Financial Statements June 30, 2016

### Note 1 - Nature of Business and Significant Accounting Policies (Continued)

**Fiduciary Funds** - Fiduciary funds are used to account for assets held by the School District in a trustee capacity or as an agent. The Private Purpose Trust Funds are used to account for resources legally held in trust, including contributions received by the School District to be awarded in the form of scholarships. The Student Activities Agency Fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations. This fund is used to record the transactions of student groups for school and school-related purposes. The funds are segregated and held in trust for the students.

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

**Cash and Investments** - Cash and investments 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. Investment income is recorded in the fund for which the investment account was established.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." The School District considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded. Property taxes are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are billed on July 1 for approximately 35 percent of the taxes and on December 1 for the remainder of the property taxes. Taxes are considered delinquent on March 1 of the following year. At this time, penalties and interest are assessed and the total obligation is added to the county tax rolls.

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

**Restricted Assets** - The unspent bond proceeds and related interest of the capital projects funds require amounts to be set aside for construction. In addition, property tax collections of the debt service funds are required to be spent on bonded indebtedness. These amounts have been classified as restricted assets.



# Hartland Consolidated Schools

## Notes to Financial Statements June 30, 2016

### Note I - Nature of Business and Significant Accounting Policies (Continued)

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

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

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

**Compensated Absences (Vacation Leave)** - The liability for compensated absences reported in the government-wide statements consists of earned but unused accumulated vacation benefits. A liability for these amounts is reported in governmental funds as it comes due for payment. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments at normal retirement age and other employees who are expected to become eligible in the future to receive such payments upon normal retirement are included.

**Long-term Obligations** - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as debt service expenditures.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

# Hartland Consolidated Schools

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## Notes to Financial Statements June 30, 2016

### Note 1 - Nature of Business and Significant Accounting Policies (Continued)

**Deferred Outflows/Inflows of Resources** - In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period and so will not be recognized as an outflow of resources (expenditure) until then. The School District has two items that qualify for reporting in this category. They are the deferred charge on refunding and deferred outflows related to pensions reported in the government-wide statement of net position. A deferred charge on bond refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The School District has two types of items that qualify for reporting in this category. The first item arises only under a modified accrual basis of accounting, and is therefore only reported in the governmental funds balance sheet. The governmental funds report unavailable receivables that are not collected during the period of availability. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The other deferred inflow of resources relates to the deferred inflow related to the pension plan of \$245,323 (Note 10) and the section 147c allocation of \$2,012,857 from the State of Michigan.

**Fund Balance** - In the fund financial statements, governmental funds report the following components of fund balance:

- **Nonspendable:** Amounts that are not in spendable form or are legally or contractually required to be maintained intact
- **Restricted:** Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose
- **Committed:** Amounts that have been formally set aside by the Board of Education for use for specific purposes. Commitments are made and can be rescinded only via resolution of the Board of Education.
- **Assigned:** Intent to spend resources on specific purposes expressed by the Board of Education or Superintendent, who is authorized by policy approved by the Board of Education to make assignments

# Hartland Consolidated Schools

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## Notes to Financial Statements June 30, 2016

### Note 1 - Nature of Business and Significant Accounting Policies (Continued)

- **Unassigned:** Amounts that do not fall into any other category above. This is the residual classification for amounts in the General Fund and represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes in the General Fund. In other governmental funds, only negative unassigned amounts are reported, if any, and represent expenditures incurred for specific purposes exceeding the amounts previously restricted, committed, or assigned to those purposes.

**Use of 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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

**Comparative Data/Reclassifications** - Comparative data are not included in the School District's financial statements.

**Pensions** - 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 School 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. MPERS uses the economic resources measurement focus and the full accrual basis of accounting. Contribution revenue is recorded as contributions are due, pursuant to legal requirements. Benefit payments (including refunds of employee contributions) are recognized as expense when due and payable in accordance with the benefit terms. Related plan investments are reported at fair value.

**Adoption of New Standard** - As of June 30, 2016, the Organization adopted Governmental Accounting Standards Board (GASB) Statement No. 79, *Certain External Investment Pools and Pool Participants*. GASB Statement No. 79 provides guidance for determining whether certain investment pools can continue to be accounted for using amortized cost. The adoption did not have a significant impact on amounts reported in the financial statements.

### Note 2 - Stewardship, Compliance, and Accountability

**Budgetary Information** - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the General Fund and all special revenue funds. In addition, a budget is adopted for the capital projects and debt service funds. All annual appropriations lapse at fiscal year end.

# Hartland Consolidated Schools

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## Notes to Financial Statements June 30, 2016

### Note 2 - Stewardship, Compliance, and Accountability (Continued)

The budget document presents information by fund, function, and object. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the School District to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. During the year, the budget was amended in June 2015 in a legally permissible manner.

The General Fund budget is presented consistent with the original and amended budget adopted. The budget for the athletics program was adopted separately and the actual results reported, as required by GASB Statement No. 54, as part of the General Fund on the statement of revenue, expenditures, and changes in fund balance but are excluded from the budgetary comparison schedule - General Fund.

Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

**Excess of Expenditures Over Appropriations in Budgeted Funds** - The School District did not have significant expenditure budget variances.

**Capital Projects Funds Compliance** - The capital projects funds include capital project activities funded with bonds issued after May 1, 1994, which is when §1351a went into effect. For these capital projects, the School District has complied with the applicable provisions of §1351a of the State of Michigan's School Code.

Beginning with the year of bond issuance, the School District has reported the annual construction activity in the 2010 Capital Projects Fund. The projects for which the 2010 Bond was issued were considered complete on May 27, 2014 and the cumulative expenditures recognized for the construction period were \$27,550,859.

### Note 3 - Deposits and Investments

State statutes authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The School District is allowed to invest in U.S. Treasury or agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The School District's deposits are in accordance with statutory authority.

The School District has designated two banks for the deposit of its funds.

# Hartland Consolidated Schools

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## Notes to Financial Statements June 30, 2016

### Note 3 - Deposits and Investments (Continued)

The School District's cash and investments are subject to several types of risk, which are examined in more detail below:

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. At year end, the School District's deposit balance of \$8,155,969 had \$7,655,969 of bank deposits (money market and checking accounts) that were uninsured and uncollateralized. The School District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the School District evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**Custodial Credit Risk of Investments** - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District's policy for custodial credit risk states that custodial credit risk will be minimized by limiting investments to the types of securities allowed by state law and by pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which the School District will do business using the criteria established in the investment policy. The uninsured and unregistered investments listed in the chart below are held by a counterparty.

**Interest Rate Risk** - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The School District's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. The School District's policy minimizes interest rate risk by requiring structuring of 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; 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 School District's cash requirements.

**Credit Risk** - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The School District's investment policy does not further limit its investment choices.

# Hartland Consolidated Schools

## Notes to Financial Statements June 30, 2016

### Note 3 - Deposits and Investments (Continued)

At year end, the maturities of investments and the credit quality ratings of debt securities are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Maturities</u>	<u>Rating</u>	<u>Rating Organization</u>
U.S. Treasury STRIPS	<u>\$ 1,977,602</u>	2/15/2027	Aaa	Moody's

**Concentration of Credit Risk** - The School District places no limit on the amount the School District may invest in any one issuer. Any investment over 5 percent of total investments is a concentration. The investment listed above is considered a concentration.

**Fair Value Measurements** - The following note provides information about the School District's assets measured at fair value on a recurring basis at June 30, 2016 and the valuation techniques used by the School District to determine those fair values.

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets or liabilities that the School District has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The School District's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

The School District has \$1,977,602 in U.S. Treasury STRIPS that are measured using Level 1 inputs.

# Hartland Consolidated Schools

## Notes to Financial Statements June 30, 2016

### Note 4 - Receivables and Unavailable/Unearned Revenue

Receivables as of year end for the School District's individual major funds and the nonmajor funds in the aggregate are as follows:

	Combined General Fund	2010 Debt Service Fund	2015 Refunding, Series B Debt Service Fund	Nonmajor Funds	Total
Receivables:					
Accounts receivable	\$ 176,582	\$ 437	\$ 232	\$ 122,615	\$ 299,866
Intergovernmental	<u>7,658,998</u>	<u>-</u>	<u>-</u>	<u>8,975</u>	<u>7,667,973</u>
Total receivables	<u>\$ 7,835,580</u>	<u>\$ 437</u>	<u>\$ 232</u>	<u>\$ 131,590</u>	<u>\$ 7,967,839</u>

Governmental funds report unavailable revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also report unearned revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of unearned and unavailable revenue are as follows:

	Governmental Funds	
	Deferred Inflow - Unavailable	Liability - Unearned
General Fund	\$ (3,285)	\$ (99,559)
Nonmajor funds	<u>-</u>	<u>(37,706)</u>
Total deferred revenue	<u>\$ (3,285)</u>	<u>\$ (137,265)</u>

# Hartland Consolidated Schools

## Notes to Financial Statements June 30, 2016

### Note 5 - Capital Assets

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

Governmental Activities	Balance July 1, 2015	Additions	Disposals	Balance June 30, 2016
Capital assets not being depreciated - Land	\$ 2,419,502	\$ -	\$ -	\$ 2,419,502
Capital assets being depreciated:				
Buildings and building improvements	176,763,177	123,888	-	176,887,065
Furniture and equipment	20,728,292	271,941	-	21,000,233
Buses and other vehicles	6,329,925	905,515	1,506,809	5,728,631
Subtotal	203,821,394	1,301,344	1,506,809	203,615,929
Accumulated depreciation:				
Buildings and building improvements	56,195,443	4,557,764	-	60,753,207
Furniture and equipment	14,442,408	617,275	-	15,059,683
Buses and other vehicles	2,892,078	575,364	1,356,128	2,111,314
Subtotal	73,529,929	5,750,403	1,356,128	77,924,204
Net capital assets being depreciated	130,291,465	(4,449,059)	150,681	125,691,725
Net capital assets	\$ 132,710,967	\$ (4,449,059)	\$ 150,681	\$ 128,111,227

Depreciation expense was not charged to activities as the School District considers its assets to impact multiple activities and allocation is not practical.

### Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Fund Due To	Fund Due From Nonmajor Governmental Funds
General Fund	\$ 6,957



# Hartland Consolidated Schools

## Notes to Financial Statements June 30, 2016

### Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Interfund transfers reported in the fund financial statements are comprised of the following:

Fund Advanced To	Fund Advanced From			Total
	2010 Debt Service Fund	2015 Refunding, Series B Debt Service Fund	Nonmajor Governmental Funds	
General Fund	\$ -	\$ -	\$ 49,128	\$ 49,128
Nonmajor governmental funds	56,785	393	393	57,571
Total	<u>\$ 56,785</u>	<u>\$ 393</u>	<u>\$ 49,521</u>	<u>\$ 106,699</u>

Transfers from the nonmajor funds to the General Fund represent indirect costs paid from the Food Services Fund to the General Fund. Transfers between the 2010 Debt Service Fund and the 2015 Refunding, Series B Debt Service Fund to nonmajor funds represent transfers made to reallocate debt funds.

### Note 7 - Long-term Debt

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Qualified bonds are fully guaranteed by the State of Michigan. Notes and installment purchase agreements are also general obligations of the School District. Other long-term obligations include compensated absences.

# Hartland Consolidated Schools

## Notes to Financial Statements June 30, 2016

### Note 7 - Long-term Debt (Continued)

Long-term debt activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>					
Bonds	\$ 104,185,000	\$ 89,155,000	\$ 42,415,000	\$ 150,925,000	\$ 16,385,000
Notes	1,263,882	839,546	216,123	1,887,305	364,633
School Bond Loan/School Revolving Fund	53,292,928	2,160,162	55,445,000	8,090	-
Compensated absences	43,752	-	2,719	41,033	-
Premium on bonds	901,152	4,662,564	115,326	5,448,390	315,590
Deferred outflow - Deferred interest charges	-	(1,210,736)	(201,789)	(1,008,947)	-
Total governmental activities	<u>\$ 159,686,714</u>	<u>\$ 95,606,536</u>	<u>\$ 97,992,379</u>	<u>\$ 157,300,871</u>	<u>\$ 17,065,223</u>

The School District issued Build America Bonds in 2010. Build America Bonds, a program under the American Recovery and Reinvestment Act of 2009, provides funding for state and local governments at lower borrowing costs. The program is designed to provide a federal subsidy for a larger portion of the borrowing costs of state and local governments than traditional tax-exempt bonds. The federal interest subsidy is indicated as a reduction of interest payments in the table below. The net interest column indicates the amount of cash that the School District will pay in interest.

Annual debt service requirements to maturity for the above bond and note obligations are as follows:

Years Ending June 30	Governmental Activities				
	Principal	Interest	Maximum Interest Subsidy	Net Interest	Total - Net
2017	\$ 16,749,633	\$ 5,362,228	\$ (706,440)	\$ 4,655,788	\$ 21,405,421
2018	17,118,914	5,032,121	(706,440)	4,325,681	21,444,595
2019	17,505,815	4,675,843	(706,440)	3,969,403	21,475,218
2020	17,942,844	4,265,191	(706,440)	3,558,751	21,501,595
2021	18,339,703	3,799,440	(706,440)	3,093,000	21,432,703
2022-2026	29,270,396	13,910,025	(3,532,200)	10,377,825	39,648,221
2027-2031	32,250,000	4,067,070	(706,440)	3,360,630	35,610,630
2032-2035	3,635,000	456,000	-	456,000	4,091,000
Total	<u>\$ 152,812,305</u>	<u>\$ 41,567,918</u>	<u>\$ (7,770,840)</u>	<u>\$ 33,797,078</u>	<u>\$ 186,609,383</u>

# Hartland Consolidated Schools

## Notes to Financial Statements June 30, 2016

### Note 7 - Long-term Debt (Continued)

#### Governmental Activities

General obligation bonds consist of the following:

\$26,390,000 - 2007 building and site serial bond due on May 1, 2017; interest at 4.00 percent	\$ 1,125,000
\$12,180,000 - 2010 building and site serial bond, Series B, due on May 1, 2027; interest at 6.65 percent	12,180,000
\$36,960,000 - 2011 partial refunding of the 2001 refunding bond due in annual installments of \$3,730,000 to \$3,875,000 through May 1, 2021; interest at 3.50 percent	19,035,000
\$30,035,000 - 2012 refunding of the 2001 refunding bond due in annual installments of \$3,550,000 to \$3,975,000 beginning May 1, 2022 through May 1, 2029; interest from 2.75 percent to 5.25 percent	29,835,000
\$6,770,000 - 2015 refunding of the 2004 refunding bond due in annual installments of \$1,000,000 to \$1,100,000 through May 1, 2022; interest from 2.00 percent to 4.00 percent	6,365,000
\$55,770,000 - 2015 refunding of the School Bond Loan Fund and School Loan Revolving Fund debt due in annual installments of \$10,320,000 to \$12,100,000 beginning May 1, 2017 through May 1, 2021; interest from 1.015 percent to 2.478 percent	55,770,000
\$26,615,000 - 2016 refunding of the 2010 School Building and Site Bonds - Series C and partial refunding of the 2007 Building and Site serial bond due in annual installments of \$870,000 to \$2,185,000 beginning May 1, 2018 through May 1, 2035; interest from 4.00 percent to 5.00 percent	<u>26,615,000</u>
Total	<u>\$ 150,925,000</u>

Notes consist of the following:

Date	Original Amount	Interest Rate	Due Date	Remaining to Maturity	
				Principal	Interest
June 6, 2014	\$ 540,493	1.67 %	5/1/2020	\$ 365,748	\$ 13,876
April 9, 2015	810,436	1.78 %	5/1/2021	682,011	33,828
March 8, 2016	<u>839,546</u>	1.99 %	11/1/2021	<u>839,546</u>	<u>53,606</u>
Total	<u>\$ 2,190,475</u>			<u>\$ 1,887,305</u>	<u>\$ 101,310</u>

# Hartland Consolidated Schools

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## Notes to Financial Statements June 30, 2016

### Note 7 - Long-term Debt (Continued)

**School Bond Loan and School Loan Revolving Fund** - The school bond loan payable represents notes payable to the State of Michigan for loans made to the School District, as authorized by the 1963 State of Michigan Constitution, for the purpose of paying principal and interest on general obligation bonds of the School District issued for capital expenditures. Interest rates are to be annually determined by the State Administrative Board. Interest rates ranged from 3.41 percent to 3.44 percent from July 1, 2015 to June 30, 2016. Repayment is required when the millage rate necessary to cover the annual bonded debt service falls below 7 mills. The School District is required to levy 7 mills and repay to the State any excess of the amount levied over the bonded debt service requirements. As a result of the issuance of the 2015 Refunding Bonds, Series B, the School District repaid \$3,931,993 and \$51,513,007 towards the outstanding balances of the School Bond Loan Fund and School Loan Revolving Fund, respectively. The full obligation of the School Bond Loan Fund has been satisfied. The School Loan Revolving Fund balance at June 30, 2016 is \$8,090.

**Advance and Current Refundings** - During the year, the School District issued \$6,770,000 in 2015 Refunding Series A general obligation bonds with an average interest rate of 2.6 percent. The proceeds of these bonds were used to refund \$6,800,000 of outstanding 2004 Refunding Bonds. The net proceeds of \$6,838,787 (after payment of \$49,318 in underwriting fees and other issuance costs) were deposited in an irrevocable trust with an escrow agent and used to repay the outstanding bonds in December 2015. The refunding reduced total debt service payments by approximately \$671,898, which represents an economic gain of approximately \$663,510.

During the current year, the School District defeased \$55,445,000 of Michigan School Bond Loan Fund and School Loan Revolving Fund debt through the issuance of 2015 Series B refunding bonds with an average rate of 1.8 percent. The defeasance was completed in November 2015 pursuant to terms as outlined by the State of Michigan and resulted in the reduction of debt service payments of approximately \$6,582,462.

# Hartland Consolidated Schools

## Notes to Financial Statements June 30, 2016

### Note 7 - Long-term Debt (Continued)

Additionally, the School District issued \$26,615,000 in 2016 Refunding general obligation bonds with an average interest rate of 4.8 percent. The proceeds of these bonds were used to refund \$13,215,000 of outstanding 2010 School Building and Site Bonds - Series C, as well as to advance refund \$16,650,000 of outstanding 2007 School Building and Site Bonds. The net proceeds of \$30,937,391 (after payment of \$222,068 in underwriting fees and other issuance costs) were deposited in an irrevocable trust with an escrow agent and were used to repay the outstanding 2010 School Building and Site Bonds in June 2016 and to provide for all future debt service payments on the 2007 School Building and Site Bonds in May 2017. As a result, this portion of the 2007 School Building and Site Bonds are considered to be defeased and the liability has been removed from the School District's long-term obligations. The refundings reduced total debt service payments by approximately \$2,234,356, which represents an economic gain of approximately \$2,061,238. At June 30, 2016, \$16,650,000 of bonds outstanding are considered defeased and deferred outflow charges related to this transaction were \$1,008,947 at June 30, 2016.

### Note 8 - Restricted Assets

The balances for the restricted asset accounts are as follows:

	Governmental Activities
Unspent bond proceeds and related interest	\$ 1,296,102
Debt service funds and investments	2,603,025
Total restricted assets	<u>\$ 3,899,127</u>

### Note 9 - Risk Management

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The School District has purchased commercial insurance for property loss, torts, errors and omissions, and medical benefit claims and participates in the SET-SEG risk pool for claims relating to employee injuries. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The shared-risk pool program in which the School District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

# Hartland Consolidated Schools

## Notes to Financial Statements June 30, 2016

### Note 10 - Michigan Public School Employees Retirement System

**Plan Description** - The School District participates in the Michigan Public School Employees Retirement System (MPSERS or the "System"), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The System provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The System also provides postemployment healthcare benefits to retirees and beneficiaries who elect to receive those benefits.

The Michigan Public School Employees Retirement System issues a publicly available financial report that includes financial statements and required supplemental information for the pension and postemployment healthcare plans. That report is available on the web at <http://www.michigan.gov/orsschools>, or by writing to the Office of Retirement System (ORS) at 7150 Harris Drive, P.O. Box 30171, Lansing MI 48909.

**Contributions** - Public Act 300 of 1980, as amended, required the School District to contribute amounts necessary to finance the coverage of pension benefits of active and retired members. Contribution provisions are specified by state statute and may be amended only by action of the state legislature. Under these provisions, each school district's contribution is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance a portion of the unfunded accrued liability.

School districts' contributions are determined based on employee elections. There are seven different benefit options included in the plan available to employees based on date of hire. Contribution rates are adjusted annually by the ORS.

The range of rates are as follows:

**School District**

October 1, 2014 - September 30, 2015	18.76% - 23.07%
October 1, 2015 - June 30, 2016	14.56% - 18.95%

Depending on the plan selected, plan member contributions range from 0 percent up to 7.0 percent of gross wages. Plan members electing into the defined contribution plan are not required to make additional contributions.

The School District's required and actual contributions to the plan for the year ended June 30, 2016 was approximately \$7,230,000. The School District's required and actual contributions include an allocation of approximately \$2,013,000 revenue received from the State of Michigan, and remitted to the System, to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate for the year ended June 30, 2016.

# Hartland Consolidated Schools

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## Notes to Financial Statements June 30, 2016

### Note 10 - Michigan Public School Employees Retirement System (Continued)

**Benefits Provided** - Benefit provisions of the defined benefit pension plan are established by state statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan.

Depending on the plan option selected, member retirement benefits are calculated as final average compensation times years of service times a pension factor ranging from 1.25 percent to 1.50 percent. The requirements to retire range from attaining the age of 46 to 60 with years of service ranging from 5 to 30 years, depending on when the employee became a member. Early retirement is computed in the same manner as a regular pension, but is permanently reduced 0.50 percent for each full and partial month between the pension effective date and the date the member will attain age 60. There is no mandatory retirement age.

Members are eligible for non-duty disability benefits after 10 years of service and for duty-related disability benefits upon hire. Disability retirement benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. The disability benefits plus authorized outside earnings are limited to 100 percent of the participant's final average compensation with an increase of 2 percent each year thereafter.

Benefits may transfer to a beneficiary upon death and are determined in the same manner as retirement benefits, but with an actuarial reduction.

Benefit terms provide for annual cost-of-living adjustments to each employee's retirement allowance subsequent to the employee's retirement date. The annual adjustment, if applicable, is 3 percent. For some members who do not receive an annual increase, they are eligible to receive a supplemental payment in those years when investment earnings exceed actuarial assumptions.

**Net Pension Liability, Deferrals, and Pension Expense** - At June 30, 2016, the School District reported a liability of \$73,836,008 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 as of September 30, 2014, which used update procedures to roll forward the estimated liability to September 30, 2015. The School District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2016, the School District's proportion was 0.30230 percent.

# Hartland Consolidated Schools

## Notes to Financial Statements June 30, 2016

### Note 10 - Michigan Public School Employees Retirement System (Continued)

For the year ended June 30, 2016, the School District recognized pension expense of \$6,628,788, exclusive of payments to fund the MPSERS UAAL Stabilization Rate. At June 30, 2016, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ (244,566)
Changes of assumptions	1,817,999	-
Net difference between projected and actual earnings on pension plan assets	376,873	-
Changes in proportion and differences between the School District's contributions and proportionate share of contributions	1,442,944	(757)
The School District's contributions subsequent to the measurement date	<u>5,690,452</u>	<u>-</u>
Total	<u>\$ 9,328,268</u>	<u>\$ (245,323)</u>

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

Years Ending June 30	Amount
2017	\$ 595,255
2018	595,255
2019	496,720
2020	1,705,263
2021	-
Thereafter	<u>-</u>
Total	<u>\$ 3,392,493</u>

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



# Hartland Consolidated Schools

## Notes to Financial Statements June 30, 2016

### Note 10 - Michigan Public School Employees Retirement System (Continued)

**Actuarial Assumptions** - 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:

Actuarial cost method	Entry age normal cost actuarial cost method
Investment rate of return	7.00 to 8.00 percent, net of investment expenses based on the groups
Salary increases	3.50 - 12.3 percent, including wage inflation of 3.5 percent
Mortality basis	RP2000 Combined Healthy Mortality Table, adjusted for mortality improvements to 2025 using projection scale BB
Cost of living pension adjustments	3 percent annual non-compounded for MIP members

The actuarial assumptions used for the September 30, 2014 valuation were based on the results of an actuarial experience study for the period from October 1, 2007 to September 30, 2012. As a result of this study, the actuarial assumptions were adjusted to more closely reflect actual experience.

**Discount Rate** - The discount rate used to measure the total pension liability was 7.00-8.00 percent depending on the plan option. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that employer contributions will be made at contractually required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

# Hartland Consolidated Schools

## Notes to Financial Statements June 30, 2016

### Note 10 - Michigan Public School Employees Retirement System (Continued)

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

Investment Category	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity pools	28.0 %	5.9 %
Private equity pools	18.0	9.2
International equity pools	16.0	7.2
Fixed-income pools	10.0	0.9
Real estate and infrastructure pools	10.0	4.3
Real return, opportunistic, and absolute pool	16.0	6.0
Short-term investment pools	2.0	-
Total	100.0 %	

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate** - The following presents the net pension liability of the School District calculated using the discount rate of 7.00-8.00 percent, depending on the plan option. The following also reflects what the School District's net pension liability would be if it were calculated using a discount rate that is 1.00 percentage point lower (6.0 - 7.0 percent) or 1.00 percentage point higher (8.0 - 9.0 percent) than the current rate:

1.00 Percent Decrease (6.0 - 7.0 Percent)	Current Discount Rate (7.0 - 8.0 Percent)	1.00 Percent Increase (8.0 - 9.0 Percent)
\$ 95,193,542	\$ 73,863,008	\$ 55,830,733

**Pension Plan Fiduciary Net Position** - Detailed information about the pension plan's fiduciary net position is available in the separately issued MPSERS financial report.

**Payable to the Pension Plan** - At June 30, 2016, the School District reported a payable of \$1,086,060 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2016.

# Hartland Consolidated Schools

## Notes to Financial Statements June 30, 2016

### **Note 10 - Michigan Public School Employees Retirement System (Continued)**

**Postemployment Benefits Other Than Pensions (OPEB)** - Under the MPSERS act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverage through MPSERS. Retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent, or 20 percent for those not Medicare eligible, of the monthly premium amount for the health, dental, and vision coverage at the time of receiving the benefits. The MPSERS board of trustees annually sets the employer contribution rate to fund the benefits on a pay-as-you-go basis. Participating employers are required to contribute at that rate. The employer contribution rate ranged from 2.2 percent to 2.71 percent of covered payroll for the period from July 1, 2015 to September 30, 2015 and from 6.4 percent to 6.83 percent of covered payroll for the period from October 1, 2015 through June 30, 2016 dependent upon the employee's date of hire and plan election as noted above. Members can choose to contribute 3 percent of their covered payroll to the Retiree Healthcare Fund and keep this premium subsidy benefit or they can elect not to pay the 3 percent contribution and instead choose the Personal Healthcare Fund, which can be used to pay healthcare expenses in retirement. Members electing the Personal Healthcare Fund will be automatically enrolled in a 2 percent employee contribution into their 457 account as of their transition date and create a 2 percent employer match into the employee's 403(b) account.

The School District's required and actual contributions to the plan for retiree healthcare benefits for the years ended June 30, 2016, 2015, and 2014 were \$1,500,795, \$910,900, and \$1,691,800, respectively. In addition, a portion ranging from 35-100 percent of the the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate is considered a contribution to the retiree healthcare plan.

### **Note 11 - State Aid Anticipation Note**

In August 2015, the School District borrowed \$4,189,000 in a state aid anticipation note. The note bears interest at 1.029 percent and is due in August 2016. At June 30, 2016, the School District has accrued interest of \$37,797 on this note. The note, plus the accrued interest, was paid subsequent to June 30, 2016.

### **Note 12 - Subsequent Events**

Subsequent to June 30, 2016, the School District borrowed \$4,160,000 at 2.00 percent annual interest on a state aid anticipation note. The note, plus interest, is due August 21, 2017.

# Hartland Consolidated Schools

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## Notes to Financial Statements June 30, 2016

### Note 13 - Upcoming Accounting Pronouncements

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which addresses reporting by governments that provide postemployment benefits other than pensions (OPEB) to their employees and for governments that finance OPEB for employees of other governments. This OPEB standard will require the School District to recognize on the face of the financial statements its proportionate share of the net OPEB liability related to its participation in the MPSERS plan. The statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI). The School District is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the School District's financial statements for the year ending June 30, 2018.

## **Required Supplemental Information**

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# Hartland Consolidated Schools

## Required Supplemental Information Budgetary Comparison Schedule - General Fund\* Year Ended June 30, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Final Budget</u>
<b>Revenue</b>				
Local sources	\$ 7,479,280	\$ 7,357,767	\$ 7,491,025	\$ 133,258
State sources	40,857,690	41,596,600	41,613,593	16,993
Federal sources	486,411	457,039	448,128	(8,911)
Other	767,613	962,911	959,132	(3,779)
Total revenue	<u>49,590,994</u>	<u>50,374,317</u>	<u>50,511,878</u>	<u>137,561</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Basic program	25,907,287	26,349,869	26,271,983	(77,886)
Added needs	5,281,518	5,706,751	5,701,686	(5,065)
Support services:				
Pupil	773,620	849,222	856,328	7,106
Instructional staff	2,078,084	2,075,398	2,045,921	(29,477)
General administration	1,238,291	1,216,254	1,211,608	(4,646)
School administration	2,954,680	2,933,718	2,899,481	(34,237)
Business	790,589	809,384	763,180	(46,204)
Operations and maintenance	4,916,946	4,766,162	4,747,078	(19,084)
Pupil transportation services	2,201,464	2,052,643	2,090,323	37,680
Central	325,242	388,909	336,219	(52,690)
Other	144,058	203,115	220,161	17,046
Community services	2,888,582	3,028,682	3,067,820	39,138
Debt service:				
Principal	216,123	216,123	216,123	-
Interest	73,178	63,325	63,285	(40)
Capital outlay	1,045,042	1,084,814	1,091,277	6,463
Total expenditures	<u>50,834,704</u>	<u>51,744,369</u>	<u>51,582,473</u>	<u>(161,896)</u>
<b>Excess of Expenditures Over Revenue</b>	(1,243,710)	(1,370,052)	(1,070,595)	299,457
<b>Other Financing Sources (Uses)</b>				
Proceeds from sale of capital assets	180,000	144,614	150,134	5,520
Transfers in	49,322	48,638	49,128	490
Transfers out	(700,597)	(704,410)	(704,410)	-
Proceeds from bus note	810,435	840,276	839,546	(730)
Total other financing sources	<u>339,160</u>	<u>329,118</u>	<u>334,398</u>	<u>5,280</u>
<b>Net Change in Fund Balance</b>	(904,550)	(1,040,934)	(736,197)	304,737
<b>Fund Balance - Beginning of year</b>	<u>3,918,196</u>	<u>3,918,196</u>	<u>3,918,196</u>	<u>-</u>
<b>Fund Balance - End of year</b>	<u>\$ 3,013,646</u>	<u>\$ 2,877,262</u>	<u>\$ 3,181,999</u>	<u>\$ 304,737</u>

\*Does not include Athletics Subfund

## Hartland Consolidated Schools

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### Required Supplemental Information Schedule of Hartland Consolidated Schools' Proportionate Share of the Net Pension Liability Michigan Public School Employees Retirement System Determined as of the Plan Year Ended September 30

	<u>2015</u>	<u>2014</u>
School District's proportion of the net pension liability	0.30230 %	0.29457 %
School District's proportionate share of the net pension liability	\$ 73,836,008	\$ 64,883,693
School District's covered employee payroll	25,208,712	24,770,772
School District's proportionate share of the net pension liability as a percentage of its covered employee payroll	292.90 %	261.94 %
Plan fiduciary net position as a percentage of the total pension liability	62.92 %	66.20 %

## Hartland Consolidated Schools

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### Required Supplemental Information Schedule of Hartland Consolidated Schools' Contributions Michigan Public School Employees Retirement System Determined as of the Year Ended June 30

	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 7,182,838	\$ 5,401,001
Contributions in relation to the statutorily required contribution	7,182,838	5,401,001
Contribution deficiency (excess)	-	-
School District's covered employee payroll	25,875,781	24,676,189
Contributions as a percentage of covered employee payroll	27.76 %	21.89 %



# **Hartland Consolidated Schools**

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## **Note to Required Supplemental Information Schedules Year Ended June 30, 2016**

**Benefit Changes** - There were no changes of benefit terms for the plan year ended September 30, 2015.

**Changes in Assumptions** - There were no changes of benefit assumptions for the plan year ended September 30, 2015.

## **Other Supplemental Information**

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# Hartland Consolidated Schools

## Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances Combined Nonmajor Governmental Funds Year Ended June 30, 2016

	General Fund	Athletics Subfund	Eliminating Entries	Combined General Fund
<b>Revenue</b>				
Local sources	\$ 7,491,025	\$ 267,861	\$ -	\$ 7,758,886
State sources	41,613,593	-	-	41,613,593
Federal sources	448,128	-	-	448,128
Other	959,132	-	-	959,132
Total revenue	50,511,878	267,861	-	50,779,739
<b>Expenditures</b>				
Current:				
Instruction	31,973,669	-	-	31,973,669
Support services	15,170,299	-	-	15,170,299
Athletics	-	871,511	-	871,511
Community services	3,067,820	-	-	3,067,820
Debt service:				
Principal	216,123	-	-	216,123
Interest	63,285	-	-	63,285
Capital outlay	1,091,277	22,999	-	1,114,276
Total expenditures	51,582,473	894,510	-	52,476,983
<b>Excess of Expenditures Over Revenue</b>	(1,070,595)	(626,649)	-	(1,697,244)
<b>Other Financing Sources (Uses)</b>				
Proceeds from sale of capital assets	150,134	-	-	150,134
Transfers in	49,128	704,410	(704,410)	49,128
Transfers out	(704,410)	-	704,410	-
Proceeds from bus note	839,546	-	-	839,546
Total other financing sources	334,398	704,410	-	1,038,808
<b>Net Change in Fund Balances</b>	(736,197)	77,761	-	(658,436)
<b>Fund Balances - Beginning of year</b>	3,918,196	79,574	-	3,997,770
<b>Fund Balances - End of year</b>	<u>\$ 3,181,999</u>	<u>\$ 157,335</u>	<u>\$ -</u>	<u>\$ 3,339,334</u>

# Hartland Consolidated Schools

	Special Revenue Fund	Debt Service Funds				
	Food Services	2004 Refunding	2007	2011 Refunding	2011 Refunding, Series B	2015 Refunding, Series A
<b>Assets</b>						
Cash and cash equivalents	\$ 247,857	\$ -	\$ -	\$ -	\$ -	\$ -
Receivables	9,997	-	645	116,060	287	232
Inventories	10,331	-	-	-	-	-
Restricted assets	-	-	77,718	215,671	14,734	85,311
<b>Total assets</b>	<b>\$ 268,185</b>	<b>\$ -</b>	<b>\$ 78,363</b>	<b>\$ 331,731</b>	<b>\$ 15,021</b>	<b>\$ 85,543</b>
<b>Liabilities and Fund Balances</b>						
<b>Liabilities</b>						
Accounts payable	\$ 720	\$ -	\$ -	\$ -	\$ -	\$ -
Accrued payroll-related liabilities	28,484	-	-	-	-	-
Unearned revenue	37,706	-	-	-	-	-
Due to other funds	6,957	-	-	-	-	-
<b>Total liabilities</b>	<b>73,867</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Fund Balances</b>						
Nonspendable - Inventory	10,331	-	-	-	-	-
Restricted:						
Capital projects	-	-	-	-	-	-
Debt service	-	-	78,363	331,731	15,021	85,543
Food service	183,987	-	-	-	-	-
<b>Total fund balances</b>	<b>194,318</b>	<b>-</b>	<b>78,363</b>	<b>331,731</b>	<b>15,021</b>	<b>85,543</b>
<b>Total liabilities and fund balances</b>	<b>\$ 268,185</b>	<b>\$ -</b>	<b>\$ 78,363</b>	<b>\$ 331,731</b>	<b>\$ 15,021</b>	<b>\$ 85,543</b>

**Other Supplemental Information  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2016**

Debt Service Funds		Capital Projects Fund	Total Nonmajor Governmental Funds	
2016 Refunding	Total	2010 Capital Projects Combined		
\$ -	\$ -	\$ -	\$ 247,857	
4,369	121,593	-	131,590	
-	-	-	10,331	
56,785	450,219	1,296,102	1,746,321	
<b><u>\$ 61,154</u></b>	<b><u>\$ 571,812</u></b>	<b><u>\$1,296,102</u></b>	<b><u>\$ 2,136,099</u></b>	
\$ -	\$ -	\$ 92,240	\$ 92,960	
-	-	-	28,484	
-	-	-	37,706	
-	-	-	6,957	
-	-	92,240	166,107	
-	-	-	10,331	
-	-	1,203,862	1,203,862	
61,154	571,812	-	571,812	
-	-	-	183,987	
61,154	571,812	1,203,862	1,969,992	
<b><u>\$ 61,154</u></b>	<b><u>\$ 571,812</u></b>	<b><u>\$1,296,102</u></b>	<b><u>\$ 2,136,099</u></b>	

# Hartland Consolidated Schools

	Special Revenue Fund	Debt Service Funds				
	Food Services	2004 Refunding	2007	2011 Refunding	2011 Refunding, Series B	2015 Refunding, Series A
<b>Revenue</b>						
Local sources	\$ 1,049,238	\$ 152	\$ 1,570,946	\$ 4,521,920	\$ 700,661	\$ 565,326
State sources	49,344	-	3,124	8,765	1,393	1,124
Federal sources	443,873	-	-	-	-	-
Total revenue	1,542,455	152	1,574,070	4,530,685	702,054	566,450
<b>Expenditures</b>						
Current - Food services	1,436,228	-	-	-	-	-
Debt service:						
Principal	-	-	1,100,000	3,795,000	-	405,000
Interest	-	162,366	787,805	799,050	1,372,775	78,280
Other	-	62	621	1,360	429	46,552
Capital outlay	-	-	-	-	-	-
Total expenditures	1,436,228	162,428	1,888,426	4,595,410	1,373,204	529,832
<b>Excess of Revenue Over (Under) Expenditures</b>	106,227	(162,276)	(314,356)	(64,725)	(671,150)	36,618
<b>Other Financing (Uses) Sources</b>						
Payment to escrow agent	-	-	-	-	-	(6,838,787)
Transfers in	-	786	-	-	-	-
Transfers out	(49,128)	-	-	-	-	(393)
Proceeds from issuance of bonds	-	-	-	-	-	6,770,000
Premium on debt issued	-	-	-	-	-	118,105
School Bond Loan Revolving Fund proceeds	-	105,043	316,382	183,154	656,331	-
Total other financing (uses) sources	(49,128)	105,829	316,382	183,154	656,331	48,925
<b>Net Change in Fund Balances</b>	57,099	(56,447)	2,026	118,429	(14,819)	85,543
<b>Fund Balances - Beginning of year</b>	137,219	56,447	76,337	213,302	29,840	-
<b>Fund Balances - End of year</b>	<b>\$ 194,318</b>	<b>\$ -</b>	<b>\$ 78,363</b>	<b>\$ 331,731</b>	<b>\$ 15,021</b>	<b>\$ 85,543</b>

**Other Supplemental Information  
Combining Statement of Revenue, Expenditures, and  
Changes in Fund Balances  
Nonmajor Governmental Funds  
Year Ended June 30, 2016**

Debt Service Funds		Capital Projects Fund	Total Nonmajor Governmental Funds	
2016 Refunding	Total	2010 Capital Projects Combined		
\$ 359	\$ 7,359,364	\$ 2,688	\$ 8,411,290	
-	14,406	-	63,750	
-	-	-	443,873	
359	7,373,770	2,688	8,918,913	
-	-	-	1,436,228	
-	5,300,000	-	5,300,000	
-	3,200,276	-	3,200,276	
218,058	267,082	-	267,082	
-	-	315,945	315,945	
218,058	8,767,358	315,945	10,519,531	
(217,699)	(1,393,588)	(313,257)	(1,600,618)	
(30,937,391)	(37,776,178)	-	(37,776,178)	
56,785	57,571	-	57,571	
-	(393)	-	(49,521)	
26,615,000	33,385,000	-	33,385,000	
4,544,459	4,662,564	-	4,662,564	
-	1,260,910	-	1,260,910	
278,853	1,589,474	-	1,540,346	
61,154	195,886	(313,257)	(60,272)	
-	375,926	1,517,119	2,030,264	
<b>\$ 61,154</b>	<b>\$ 571,812</b>	<b>\$ 1,203,862</b>	<b>\$ 1,969,992</b>	

# Hartland Consolidated Schools

June 30	2007 School Building and Site Bonds Principal	2010 School Building and Site Bonds, Series B Principal
2017	\$ 1,125,000	\$ -
2018	-	-
2019	-	-
2020	-	-
2021	-	-
2022	-	-
2023	-	-
2024	-	-
2025	-	-
2026	-	-
2027	-	12,180,000
2028	-	-
2029	-	-
2030	-	-
2031	-	-
2032	-	-
2033	-	-
2034	-	-
2035	-	-
Total principal	<b>\$ 1,125,000</b>	<b>\$ 12,180,000</b>
Principal payments due	May 1	May 1
Interest payments due	May 1 and November 1	May 1 and November 1
Interest rate	4.00%	6.65% (excluding subsidized portions)
Original issue	<b>\$ 26,390,000</b>	<b>\$ 12,180,000</b>



**Other Supplemental Information  
Schedule of Bonded Indebtedness  
Year Ended June 30, 2016**

2011 Refunding Bonds Principal	2012 Refunding Bonds, Series B Principal	2015 Refunding Bonds, Series A Principal	2015 Refunding Bonds, Series B (SBLF) Principal	2016 Refunding Bonds Principal
\$ 3,875,000	\$ -	\$ 1,065,000	\$ 10,320,000	\$ -
3,845,000	-	1,075,000	10,700,000	1,125,000
3,810,000	-	1,100,000	11,075,000	1,140,000
3,775,000	-	1,075,000	11,575,000	1,130,000
3,730,000	-	1,050,000	12,100,000	1,160,000
-	3,975,000	1,000,000	-	1,670,000
-	3,900,000	-	-	1,730,000
-	3,840,000	-	-	1,815,000
-	3,770,000	-	-	1,895,000
-	3,625,000	-	-	1,970,000
-	3,600,000	-	-	2,035,000
-	3,575,000	-	-	2,100,000
-	3,550,000	-	-	2,155,000
-	-	-	-	2,185,000
-	-	-	-	870,000
-	-	-	-	900,000
-	-	-	-	905,000
-	-	-	-	910,000
-	-	-	-	920,000
<b><u>\$ 19,035,000</u></b>	<b><u>\$ 29,835,000</u></b>	<b><u>\$ 6,365,000</u></b>	<b><u>\$ 55,770,000</u></b>	<b><u>\$ 26,615,000</u></b>
May 1	May 1	May 1	May 1	May 1
May 1 and November 1	May 1 and November 1	May 1 and November 1	May 1 and November 1	May 1 and November 1
3.50%	2.75% to 5.25%	2.00% to 4.00%	1.015% to 2.478%	4.00% to 5.00%
<b><u>\$ 36,960,000</u></b>	<b><u>\$ 30,035,000</u></b>	<b><u>\$ 6,770,000</u></b>	<b><u>\$ 55,770,000</u></b>	<b><u>\$ 26,615,000</u></b>