

**HANOVER-HORTON  
SCHOOL DISTRICT  
SINKING FUND**



**FINANCIAL STATEMENTS**

**YEAR ENDED  
JUNE 30, 2016**

**KARL L. DRAKE, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS**

# **HANOVER-HORTON SCHOOL DISTRICT**

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**Karl L. Drake, P.C.**  
**Certified Public Accountants**

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## **INDEPENDENT AUDITORS' REPORT**

Board of Education  
Hanover-Horton School District  
Horton, Michigan

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

We have audited the accompanying balance sheet and statement of revenue and expenditures and changes in fund balance of the Sinking Fund of the Hanover-Horton School District, as of and for the year ended June 30, 2016, and the related notes to the financial statements.

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

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

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Sinking Fund of the Hanover-Horton School District, as of June 30, 2016, and the respective changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.



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The accompanying statement was prepared for the purpose of complying with the provisions of the Michigan Revised School Code (Public Act 451 of 1976, as amended), Part 17 - Bonds and Notes, Section 380.1351(a) as described in Note 2. The presentation is not intended to be a presentation of the District's total revenue and expenditures.

## **Other Matters**

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

In accordance with Government Auditing Standards, we have also issued our report dated July 20, 2016, on our consideration of the Hanover-Horton School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Hanover-Horton School District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Karl L. Drake".

Karl L. Drake, P.C.  
Certified Public Accountants  
July 20, 2016

# HANOVER-HORTON SCHOOL DISTRICT

Sinking Fund

## BALANCE SHEET

JUNE 30, 2016

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### ASSETS

Cash and Investments	\$	-
Taxes Receivable		-
Due from Other Funds		178,926
<b>TOTAL ASSETS</b>	<b>\$</b>	<b>178,926</b>

### LIABILITIES AND FUND BALANCE

#### LIABILITIES

Accounts Payable	\$	-
Due to Other Governments		-
<b>TOTAL LIABILITIES</b>	<b>\$</b>	<b>-</b>
<b>FUND BALANCE</b>	<b>\$</b>	<b>178,926</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$</b>	<b>178,926</b>

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**Sinking Fund****STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES  
IN FUND BALANCES****YEAR ENDED JUNE 30, 2016**

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**REVENUE**

Current Taxes	\$ 253,100
Delinquent Taxes	2,318
Grants	-
Earned Interest	1,684
Miscellaneous	-
<b>TOTAL REVENUE</b>	<b>257,102</b>

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**EXPENDITURES**

Improvements	373,108
Buildings	-
Real Estate	-
<b>TOTAL EXPENDITURES</b>	<b>373,108</b>

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**EXCESS REVENUE OVER (UNDER) EXPENDITURES**

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**(116,006)****OTHER FINANCING SOURCES (USES)**

Proceeds from Bonds	-
Proceeds from Loans	-
Transfers from General Fund	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>-</b>

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**EXCESS REVENUE AND OTHER SOURCES OVER (UNDER)****EXPENDITURES AND OTHER USES****(116,006)****FUND BALANCE - BEGINNING OF YEAR****294,932****FUND BALANCE - END OF YEAR****\$ 178,926**

# HANOVER-HORTON SCHOOL DISTRICT

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## NOTES TO FINANCIAL STATEMENTS

### NOTE 1 - REPORTING ENTITY

Hanover-Horton School District (“The School District”), is comprised of K-12 operations. The School District’s Board of Education members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and primary accountability for fiscal matters. This report includes only the balance sheet and statement of revenue, expenditures, and changes in Fund Balance of the Sinking Fund of the School District and its activities are considered to be part of the School District and controlled by the Board of Education.

### NOTE 2 - FUND DESCRIPTION

The School District has established a sinking fund. The School District’s taxpayers have approved the collection of 1 mill of property taxes for the years of 2017 through 2021. The property tax revenue is restricted for facility repairs and improvements, as defined by the Michigan Revised School Code.

#### Basis of Presentation

The accompanying statements have been prepared based on the modified accrual basis of accounting, in accordance with United States generally accepted accounting principles. Under the modified accrual basis of accounting, revenue is recorded when susceptible to accrual; i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the liability is incurred.

The Michigan Revised School Code (Public Act 451 of 1976, as amended), Part 17 - Bonds and Notes, Section 380. 1351(a)(1) and (2) requires that for bonds issued under that section after May 1, 1994, an independent audit be performed on certain operating results and compliance tests performed related to specified bond activities.

### NOTE 3 - RISK MANAGEMENT

The School District is exposed to various risks of loss to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the School District carries commercial insurance. Liabilities in excess of insurance coverage, if any, are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

### NOTE 4 - ESTIMATES

The preparation of financial statements in conformity with United States generally accepted accounting principles 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 expenditures during the reporting period. Actual results could differ from those estimates.



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## Notes to Financial Statements

### NOTE 5 - DEPOSITS WITH FINANCIAL INSTITUTIONS

#### LEGAL OR CONTRACTUAL PROVISIONS FOR DEPOSITS AND INVESTMENTS

The Michigan Political Subdivisions Act No. 20, Public Acts of 1943, as amended by Act No. 217, Public Acts of 1982, states the Department, by resolution, may authorize investment of surplus funds as follows:

1. In bonds and other direct obligations of the United States or an agency or instrumentality of the United States.
2. In certificates of deposit, savings accounts, or depository receipts of a bank, which is a member of the Federal Deposit Insurance Corporation; or a savings and loan association, which a member of the Federal Savings and Loan Insurance Corporation; or a credit union, which is insured by the National Credit Union Association; but only if the bank, savings and loan association, or credit union complies with Subsection (2).
3. In commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and which matures not more than 270 days after the date of purchase. Not more than 50% of any fund may be invested in commercial paper at any time.
4. In United States government or Federal agency obligation repurchase agreements.
5. In bankers' acceptances of United States banks.
6. In mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Board, at one financial institution, maintains total cash deposits of the Sinking Fund.

#### Deposits

At June 30, 2016, the carrying amount of the deposits was \$0 and the bank balance was \$0. Of the bank balance, \$0 was covered by federal depository insurance and \$0 was uninsured and uncollateralized. The School District maintains its deposits in compliance with statutory requirements.

#### 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 does have a policy for custodial credit risk, requiring diligence and prudence of investment officials when considering investments in obligations other than those of an agency of the United States. At year end, the School District had no investment securities that were uninsured and unregistered with securities held by the counterparty or by its trust department or agent but not in the School District's name.

#### 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. At year end, the School District had no such investments.

# HANOVER-HORTON SCHOOL DISTRICT

## Notes to Financial Statements

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### **NOTE 5 - DEPOSITS WITH FINANCIAL INSTITUTIONS (CONTINUED)**

#### **LEGAL OR CONTRACTUAL PROVISIONS FOR DEPOSITS AND INVESTMENTS (CONTINUED)**

##### Concentration of Credit Risk

The School District does limit the amount that it may invest in any one issuer. The School District currently has no one investment which exceeds 20 percent of its total investments.

##### Foreign Currency Risk

Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. The School District restricts the amount of investments in foreign currency and, thus, at year end had no securities subject to foreign currency risk.

### **NOTE 6 - ACCOUNTS PAYABLE**

At June 30, 2016, there were no accounts payable.

### **NOTE 7 - DUE TO OTHER GOVERNMENTS**

At June 30, 2016, there were no amounts due to other governments.

### **NOTE 8 - DUE FROM GENERAL FUND**

At June 30, 2016, Hanover-Horton School District's General Fund owed the sinking fund \$178,926.



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## REPORT ON INTERNAL CONTROL

**Karl L. Drake, P.C.**  
**Certified Public Accountants**

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

**INDEPENDENT AUDITORS' REPORT**

Board of Education  
Hanover-Horton School District  
Horton, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the Sinking Fund of Hanover-Horton Schools as of and for the year ended June 30, 2016, and have issued our report thereon dated July 20, 2016.

**Internal Control Over Financial Reporting**

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

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

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



## **Compliance and Other Matters**

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

## **Purpose of this Report**

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



Karl L. Drake, P.C.  
Certified Public Accountants

July 20, 2016