

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle
Counties, Michigan

FINANCIAL REPORT
WITH SUPPLEMENTAL INFORMATION
June 30, 2012 and 2011

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INDEPENDENT AUDITOR'S REPORT

September 14, 2012

To The Board of Education
Hillman Community Schools
Alpena, Montmorency and Presque Isle Counties, Michigan
Hillman, Michigan 49746

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Hillman Community Schools, as of and for the years ended June 30, 2012 and 2011, which collectively comprise the Schools basic financial statements as listed in the table of contents. These financial statements are the responsibility of Hillman Community School's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

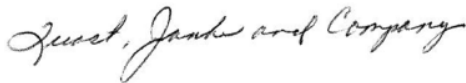
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Hillman Community Schools, as of June 30, 2012 and 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

To The Board of Education
Hillman Community Schools
September 14, 2012
Page 2

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hillman Community Schools' financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

QUAST, JANKE AND COMPANY



Certified Public Accountants, P.C.

Hillman Community Schools Management's Discussion and Analysis

This section of Hillman Community Schools' annual financial report presents our discussion and analysis of the School District's financial performance during the years ended June 30, 2012 and 2011. Please read it in conjunction with the School District's financial statements, which immediately follows 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 Hillman Community Schools financially as a whole. The District-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 district-wide financial statements by providing information about the School District's most significant funds – the General Fund, the Food Service Fund, and the 2005 Debt Retirement Fund with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary net assets, presents 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

District-wide Financial Statements Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)

Budgetary Information for the General Fund

Other Supplemental Information

Reporting the School District as a Whole – District-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 assets 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

Hillman Community Schools Management's Discussion and Analysis

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 assets – the difference between assets and liabilities, as reported in the statement of net assets – 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 assets – as reported in the statement of activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues 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 assets and statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, supporting 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. 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's meeting legal responsibilities for using certain taxes, grants, and other money. 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 assets and the statement of activities) and governmental funds in reconciliation.

Hillman Community Schools
Management's Discussion and Analysis

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 separate statements of fiduciary net assets. 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 assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets as of June 30, 2012 and 2011.

TABLE 1:

	<u>Governmental Activities</u>	
	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Assets		
Current and other assets	\$ 1,718,023	\$ 1,813,858
Capital assets – Net of accumulated depreciation	<u>7,093,415</u>	<u>7,383,984</u>
Total assets	8,811,438	9,197,842
Liabilities		
Current liabilities	818,389	936,326
Long-term liabilities	<u>4,978,190</u>	<u>5,362,709</u>
Total liabilities	<u>5,796,579</u>	<u>6,299,035</u>
Net Assets		
Invested in property and equipment – Net of related debt	1,839,068	1,736,963
Restricted	4,219	3,510
Unrestricted	<u>1,171,572</u>	<u>1,158,334</u>
Total net assets	<u>\$ 3,014,859</u>	<u>\$ 2,898,807</u>

Hillman Community Schools Management's Discussion and Analysis

The above analysis focuses on the net assets (see Table 1). The change in net assets (see Table 2) of the School District's governmental activities is discussed below. The School District's net assets were \$3,008,232 at June 30, 2012. Capital assets, net of related debt compares the original cost, less depreciation of the School District's capital assets to long-term debt. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets \$1,111,568 was unrestricted.

The \$1,111,568 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets 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 (see Table 2), which shows the changes in net assets for fiscal years ended June 30, 2012 and 2011.

TABLE 2:

	Governmental Activities	
	Year Ended June 30,	
	2012	2011
Program revenue:		
Charges for services	\$ 107,048	\$ 129,048
Grants and categoricals	1,006,357	1,116,264
General revenue:		
Property taxes	2,419,202	2,382,409
State PILT	76	17,549
State unrestricted aid	1,722,578	1,825,459
Investment earnings	14,988	26,263
Gains on sales of fixed assets	-	3,800
Other	44,352	31,068
Total revenue	5,314,601	5,531,860
Function/Program Expenses		
Instruction	2,673,386	2,884,600
Support services	1,689,768	1,705,489
Community services	350	300
Food services	338,303	326,662
Interest on long-term debt	250,251	264,730
Depreciation (unallocated)	246,491	261,746
Total expenses	5,198,549	5,443,527
Increase (Decrease) in Net Assets	\$ 116,052	\$ 88,333

Hillman Community Schools Management's Discussion and Analysis

As reported in the statement of activities, the cost of all of our governmental activities this year was \$5,198,549. Certain activities were partially funded from those who benefited from the program or by other governments and organizations that subsidized certain programs with grants and categoricals. We paid for the remaining "public benefit" portion of our governmental activities with \$2,419,278 in taxes, \$1,722,578 in State Unrestricted Aid, and with our other revenues, such as interest and general entitlements.

The School District experienced an increase in net assets of \$116,052. Key reasons for the change in net assets were continued fiscal management. The increase in net assets differs from the change in fund balance and reconciliation appears on page 15.

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.

As the School District completed this year, the governmental funds reported a combined fund balance of \$1,107,665, which is a increase of \$41,284 from last year. The primary reason for this increase is expenditure control. Also, in the General Fund, our principal operating fund, the balance increased \$76,627 to \$995,677. Overall, actual General Fund revenue and expenses were within 100.1 and 95.9 percent of budgeted amounts, respectively.

The 2005 Debt Retirement Fund fund balance decreased by \$32,197.
The Food Service Fund Balance decreased by \$3,146.

General Fund Budgetary Highlights

Over the course of the year, the School District revises its budget as it attempts to deal with changes in revenue and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. 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. Changes to the General Fund original budget reflect additional Federal funding.

There were no significant variances between the final budget and actual costs.

Hillman Community Schools
Management's Discussion and Analysis

Capital Asset and Debt Administration

Capital Assets

At June 30, 2012, the School District had \$13,199,070 invested in a broad range of capital assets, including land, buildings, vehicles, and equipment. This amount represents a net increase (including additions and disposals) of \$44,943.

	<u>2012</u>	<u>2011</u>
Land and improvements	\$ 592,185	\$ 563,234
Buildings and improvements	9,795,961	9,795,961
Buses and Other Vehicles	707,304	705,906
Equipment	<u>2,103,620</u>	<u>2,089,026</u>
Total capital assets	13,199,070	13,154,127
Less accumulated depreciation	<u>6,105,655</u>	<u>5,770,143</u>
Net capital assets	<u>\$ 7,093,415</u>	<u>\$ 7,383,984</u>

This year's additions of \$44,943 consisted of football field improvements and shop equipment.

Debt

At the end of this year, the School District had \$5,254,347 in bonds outstanding versus \$5,647,021 in the previous year. These bonds consisted of the following:

2005 Refunding Bonds	\$ 5,195,000
Bus notes	<u>59,347</u>
	<u>\$ 5,254,347</u>

The School District's General Obligation Bond rating continues to be equivalent to the State's credit rating. 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 limit. The School District's outstanding unqualified general obligation debt of \$5,254,347 is significantly below the statutorily imposed limit.

Other obligations include employee-compensated absences. We present more detailed information about our long-term liabilities in the notes to the financial statements.

Hillman Community Schools Management's Discussion and Analysis

Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration consider many factors when setting the School District's 2013 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 2013 fiscal year is 25 percent and 75 percent of the February 2012 and September 2012 student counts, respectively. The 2013 fiscal year budget was adopted in June 2012, based on an estimate of students that will be enrolled in September of 2012. Approximately 48 percent of total General Fund revenues is from state funding. 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 local school operation. Based on early enrollment data at the start of the 2012-2013 school year, we anticipate that the fall student count will be slightly less than the estimates used in creating the 2013 fiscal year budget. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget if actual District resources are not sufficient to fund original appropriations.

Since the School District's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts. The State periodically holds a revenue-estimating conference to estimate revenues. Based on the results of the most recent conference, the State estimates no increases in the foundation allowance.

Contacting the School District's Financial Management

This financial report is designed to provide the School District's citizens, taxpayers, customers, and investors and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Manager, Jill Olsen at Hillman Community Schools, 245 Third Street, PO Box 518, Hillman, Michigan 49746.

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

STATEMENT OF NET ASSETS
June 30, 2012 and 2011

	June 30,	
	2012	2011
ASSETS:		
Cash & equivalents	\$ 1,074,044	\$ 1,136,974
Accounts receivable	1,537	1,005
Due from other governmental units	414,468	427,960
Inventories	4,219	3,510
Deferred bond costs	361,450	361,450
Accumulated amortization	(137,695)	(117,041)
Capital assets	13,199,070	13,154,127
Accumulated depreciation	(6,105,655)	(5,770,143)
Total Assets	8,811,438	9,197,842
LIABILITIES:		
Accounts payable	2,246	1,610
Accrued payroll and other liabilities	377,740	476,229
Accrued interest	37,852	40,945
Deferred revenue	6,619	25,230
Compensated absences	117,775	108,000
Current portion of long term liabilities	393,932	392,312
Non current portion of long term liabilities	4,860,415	5,254,709
Total Liabilities	5,796,579	6,299,035
NET ASSETS:		
Investment in capital assets - net of related debt	1,839,068	1,736,963
Restricted	4,219	3,510
Unrestricted	1,171,572	1,158,334
Total Net Assets	\$ 3,014,859	\$ 2,898,807

See Notes to Financial Statements

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

STATEMENT OF ACTIVITIES
Years Ended June 30, 2012 and 2011

	Program Revenues				Governmental Activities	
	Expenses	Charges for Services	Operating Grants/ Contributions	Capital Grants/ Contributions	Net (Expenses) Revenues And Changes in Net Assets Years Ended June 30, 2012	2011
GOVERNMENTAL ACTIVITIES:						
Instruction	\$ 2,673,386	\$ 0	\$ 402,244	\$ 1,500	\$ (2,269,642)	\$ (2,065,803)
Supporting Services	1,689,768	107,048	369,214	4,000	(1,209,506)	(1,592,215)
Community Services	350	0	350	0	0	0
Food Services	338,303	0	229,049	0	(109,254)	(13,721)
Interest on long term debt	250,251	0	0	0	(250,251)	(264,730)
Depreciation (Unallocated)	<u>246,491</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(246,491)</u>	<u>(261,746)</u>
Total Governmental Activities	<u>\$ 5,198,549</u>	<u>\$ 107,048</u>	<u>\$ 1,000,857</u>	<u>\$ 5,500</u>	(4,085,144)	(4,198,215)
GENERAL PURPOSE REVENUES:						
Property taxes, levied for general purposes					1,853,339	1,831,569
Property taxes, levied for debt retirement					565,863	550,840
State school aid - Unrestricted					1,722,578	1,825,459
State PILT					76	17,549
Investment earnings					14,988	26,263
Gain on sales of fixed assets					0	3,800
Other					<u>44,352</u>	<u>31,068</u>
Total General Purpose Revenues					<u>4,201,196</u>	<u>4,286,548</u>
Change in Net Assets					116,052	88,333
Net Assets - Beginning of Year					<u>2,898,807</u>	<u>2,810,474</u>
Net Assets - End of Year					<u>\$ 3,014,859</u>	<u>\$ 2,898,807</u>

See Notes to Financial Statements

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

GOVERNMENTAL FUNDS BALANCE SHEET
June 30, 2012 and 2011

<u>ASSETS</u>	<u>GENERAL</u>	<u>FOOD SERVICE</u>	<u>2005 DEBT RETIREMENT</u>	<u>OTHER NONMAJOR GOVERNMENTAL FUNDS</u>	<u>Totals June 30</u>	
					<u>2012</u>	<u>2011</u>
Cash	\$ 955,870	\$ 19,316	\$ 98,858	\$ 0	\$ 1,074,044	\$ 1,136,973
Accounts receivable	710	827	0	0	1,537	1,005
Grants receivable	21,220	0	0	0	21,220	0
Due from State of Michigan	370,989	0	0	0	370,989	427,960
Due from ESD	22,260	0	0	0	22,260	0
Due from other funds	0	0	76	0	76	0
Inventory	0	4,219	0	0	4,219	3,510
	<u>\$ 1,371,049</u>	<u>\$ 24,362</u>	<u>\$ 98,934</u>	<u>\$ 0</u>	<u>\$ 1,494,345</u>	<u>\$ 1,569,448</u>
 <u>LIABILITIES AND FUND EQUITY</u>						
LIABILITIES:						
Accounts payable	\$ 2,246	\$ 0	\$ 0	\$ 0	\$ 2,246	\$ 1,610
Salaries payable	252,138	6,612	0	0	258,750	340,194
Retirement	61,645	1,617	0	0	63,262	69,904
Payroll taxes	18,647	466	0	0	19,113	25,087
Employee benefits	35,167	1,448	0	0	36,615	41,043
Due to other funds	76	0	0	0	76	0
Deferred revenue	5,453	1,165	0	0	6,618	25,229
Total Liabilities	375,372	11,308	0	0	386,680	503,067
Fund Equity:						
Nonspendable	0	3,053	0	0	3,053	3,510
Restricted	0	10,001	98,934	0	108,935	143,821
Assigned	463,728	0	0	0	463,728	651,311
Unassigned	531,949	0	0	0	531,949	267,439
Total Fund Equity	995,677	13,054	98,934	0	1,107,665	1,066,081
	<u>\$ 1,371,049</u>	<u>\$ 24,362</u>	<u>\$ 98,934</u>	<u>\$ 0</u>	<u>\$ 1,494,345</u>	<u>\$ 1,569,148</u>

See Notes to Financial Statements

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

GOVERNMENTAL FUNDS
RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO NET ASSETS
June 30, 2012

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$	1,107,665
Amounts reported for governmental activities in the statement of net assets are different because -		
Capital assets used in governmental activities are not financial resources and are not reported in the funds:		
Capital assets at cost		13,199,070
Accumulated depreciation		(6,105,655)
Long term liabilities not due and payable in the current period and therefore not reported in the funds -		
Bonds payable		(5,254,347)
Compensated balances		(117,775)
Bond issuance costs including premiums reported as an expenditure in governmental funds and are reported as a deferred expense and amortized over the life of the bond issue in the statement of activities		
Bond issuance costs and premiums		361,450
Accumulated amortization		(137,695)
Accrued interest payable not included as a liability in governmental activities		(37,852)
Rounding		<u>(2)</u>
TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES	\$	<u><u>3,014,859</u></u>

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE
Years Ended June 30, 2012 and 2011

	GENERAL	FOOD SERVICE	2005 DEBT RETIREMENT	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTALS JUNE 30,	
					2012	2011
REVENUES:						
Local Sources	\$ 1,979,142	\$ 55,581	\$ 565,903	\$ 0	\$ 2,600,626	\$ 2,578,098
State Sources -	2,121,793	12,991	76	3,145	2,138,005	2,233,353
Federal Sources	177,188	216,092	0	0	393,280	611,678
Interdistrict and Other Sources	185,870	0	0	0	185,870	126,060
Total Revenues	4,463,993	284,664	565,979	3,145	5,317,781	5,549,189
EXPENDITURES:						
Instruction	2,667,953	0	0	0	2,667,953	2,886,676
Supporting Services	1,650,423	0	0	0	1,650,423	1,815,580
Community Services	350	0	0	0	350	300
Food Service	0	325,810	0	0	325,810	314,134
Debt Service -						
Principal Repayment	0	0	365,000	2,865	367,865	370,473
Interest and Fiscal Charges	0	0	233,176	280	233,456	248,528
Total Expenditures	4,318,726	325,810	598,176	3,145	5,245,857	5,635,691
OTHER FINANCING SOURCES (USES):						
Operating transfer in	0	38,000	0	0	38,000	0
Operating transfer (out)	(38,000)	0	0	0	(38,000)	0
Bus note proceeds	0	0	0	0	0	73,000
Redemption of school bus loans	(27,522)	0	0	0	(27,522)	(13,521)
Interest on school bus loans	(3,118)	0	0	0	(3,118)	(1,176)
Sale of Fixed Assets	0	0	0	0	0	3,800
Net Other Financing Sources (Uses)	(68,640)	38,000	0	0	(30,640)	62,103
NET CHANGE IN FUND BALANCES	76,627	(3,146)	(32,197)	0	41,284	(24,399)
FUND BALANCE - BEGINNING OF YEAR	919,050	16,200	131,131	0	1,066,381	1,090,780
FUND BALANCE - END OF YEAR	\$ 995,677	\$ 13,054	\$ 98,934	\$ 0	\$ 1,107,665	\$ 1,066,381

See Notes to Financial Statements

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

GOVERNMENTAL FUNDS
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
Year Ended June 30, 2012

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS	\$		\$ 41,284
Amounts reported for governmental activities in the statement of activities are different because -			
Governmental funds report capital outlays as expenditures in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:			
Depreciation expense		(335,512)	
Capital outlay		<u>44,943</u>	
Net			(290,569)
Accrued interest recorded in the statement of activities when incurred and reported in governmental funds when paid			3,093
Bond principal repayment reported as an expenditure in governmental funds and as a reduction of long term debt in the statement of activities			392,674
Amortization of bond issuance costs and premiums previously reported as expenditures in governmental funds and currently reported as deferred expenses and amortized in the statement of activities			(20,654)
Increases in compensated absences are reported as expenditures when financial resources are used in the governmental funds in accordance with GASB Interpretation No. 6			(9,775)
Rounding			<u>(1)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$		<u><u>116,052</u></u>

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

FIDUCIARY FUND
BALANCE SHEET
June 30, 2012 and 2011

	June 30,	
	<u>2012</u>	<u>2011</u>
<u>ASSETS</u>		
Cash in bank	\$ <u>59,335</u>	\$ <u>48,964</u>
 <u>LIABILITIES</u>		
Due to school organizations	\$ <u>59,335</u>	\$ <u>48,964</u>

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Hillman Community Schools conform to United States generally accepted accounting principles as applicable to governmental units.

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 Government Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant 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. The School District has no component units.

District-wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of the interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the 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 segments are offset by program revenues. Direct expenses are those that are clearly identified with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges 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 revenues are reported as general revenue.

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

District-wide Statements - The district-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 soon as all eligibility requirements imposed by the provider have been met.

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.):

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

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-based Statements - Governmental funds financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within approximately 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.

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

The School District reports the following major governmental funds:

General Fund -

The General Fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

Food Service Fund –

This Fund's primary purpose is the provision of breakfasts and lunches to the District's pupils.

2005 Debt Retirement Fund -

This fund's primary purpose is the collection of tax revenue levies for the retirement of the 2005 refunding bonds issued by the School District.

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Assets, Liabilities, and Net Assets or Equity -

Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as “due to/from other funds”. Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “advances to/from other funds”.

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 due on February 14 with the final collection date of February 28 before they are added to the County tax rolls.

Inventories and Prepaid Items - 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. United States Department of Agriculture Commodities inventory received by the Food Service Fund are recorded as inventory and deferred revenue until used. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both district-wide and fund financial statements.

Capital Assets - Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities column in the district-wide financial statements. Capital assets are defined by the School District as assets with an individual cost of more than \$1,000 and any assets susceptible to theft. 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 lives are not capitalized. The School District does not have any infrastructure-type assets.

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

Buildings and additions	20-50 years
Buses and other vehicles	5-10 years
Furniture and other equipment	3-10 years
Land improvements	12-30 years

Compensated Absences - The liability for compensated absences reported in the district-wide financial statements consists of unpaid, accumulated sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Long term Obligations - In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

Fund Equity – Beginning with the year ended June 30, 2012 the District implemented GASB Statement 54 “Fund Balance Reporting and Governmental Fund Type Definitions”. The Statement provided more clearly defined fund balance categories to make the nature and extent of the constraints placed upon a government’s fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which the resources can be used:

- Nonspendable – amounts that are not in a spendable form such as inventory;
- Restricted – amounts constrained to specific purposes by their providers, through constitutional provisions, or by enabling legislation;
- Committed – amounts constrained to specific purposes by a government itself.
- Assigned – amounts a government intends to use for a specific purpose.
- Unassigned – amounts that are available for any purpose, positive amounts are only reported in general fund.

The provisions of GASB 54 have been retroactively applied to the prior year and the financial statements have been restated to reflect these changes. These changes had no effect on net income.

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 and Special Revenue Funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. 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. There were no significant amendments during the year.

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

Fund Deficits - The School District had no accumulated fund balance deficits.

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 3. CASH AND DEPOSITS WITH FINANCIAL INSTITUTIONS:

Deposits of the School District are carried at cost and maintained at Independent Bank, a federally insured bank, various federally insured credit unions, and the Michigan Liquid Asset Fund.

State statutes and the School District’s investment policy authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office 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.

At year-end, The School District’s deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Cash and			
Investments	\$ <u>1,074,044</u>	\$ <u>59,335</u>	\$ <u>1,133,379</u>

The Government Accounting Standards Board Statement No. 3 requires the amount of total bank balances to be classified in one of three categories of credit risk. These categories are:

- (1) Insured or collateralized with securities held by the entity or by its agent in the entity’s name.
- (2) Collateralized with securities held by the pledging financial institution’s trust department or agency in the entity’s name.
- (3) Uncollateralized (This includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent by not in the entity’s name). Bank deposits including certificates of deposit:

Category 1.	\$ 679,841
Category 2.	0
Category 3.	<u>453,538</u>
Total Bank Balances	<u>\$ 1,133,379</u>
Carrying Amount	<u>\$ 1,133,379</u>

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 4. CAPITAL ASSETS:

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

	Balance July 1, 2011	Additions	Disposal	Balance June 30, 2012
Land and improvements	\$ 563,234	\$ 28,951	\$ -	\$ 592,185
Buildings and improvements	9,795,961	-	-	9,795,961
Buses and other vehicles	705,906	1,398	-	707,304
Furniture and equipment	<u>2,089,026</u>	<u>14,594</u>	-	<u>2,103,620</u>
Total Capital Assets	13,154,127	44,943	-	13,199,070
Accumulated Depreciation				
Land and improvements	188,885	17,142	-	206,027
Buildings and improvements	3,444,349	189,105	-	3,633,454
Buses and other vehicles	514,021	42,758	-	556,779
Furniture and equipment	<u>1,622,888</u>	<u>86,507</u>	-	<u>1,709,395</u>
Total Accumulated Depreciation	<u>5,770,143</u>	<u>335,512</u>	-	<u>6,105,655</u>
Capital Assets	<u>\$ 7,383,984</u>	<u>\$(290,569)</u>	<u>\$ -</u>	<u>\$ 7,093,415</u>

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

Governmental activities:	
Instruction	\$ 10,252
Support services	66,242
Food services	12,527
Unallocated	<u>246,491</u>
Total governmental activities	<u>\$ 335,512</u>

NOTE 5. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS:

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Payable</u>	<u>Fund</u>	<u>Interfund Receivable</u>
General	\$76	Debt Retirement	\$76

Operating transfers out from the General Fund are as follows:

Food Service Fund	\$38,000
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HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30., 2012

NOTE 6. ADVANCE REFUNDING OF 1997 BUILDING AND SITE BONDS:

On November 1, 2005 the School District issued \$6,980,000 of refunding bonds with an interest rate of 4.015%. The School District issued the bonds to advance refund \$7,030,000 of the outstanding 1997 Building and Site Bonds with interest rates of 5.125% to 6.625%. The School District transferred the net proceeds along with other resources to an escrow agent. The escrow agent will provide for all future debt service on the refunded portion of the 1997 Building and Site

Bonds. As a result, that portion of the 1997 Building and Site Bonds is considered defeased, and the School District has removed the liability from its accounts.

The advance refunding reduced total debt service payments over the next 17.5 years by approximately \$1,120,000. This results in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$865,817 less amount initially provided by the 1997 Debt Retirement Fund of \$329,000 for a net present value savings of \$536,817.

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. Other long-term obligations include compensated absences, claims and judgments, termination benefits, and certain risk liabilities.

The following is a summary of the long-term debt transactions of the District for the year ended June 31, 2012:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reduction</u>	<u>Ending Balance</u>
Bonds Payable-				
Bus Notes	\$ 87,021	\$ -	\$ 27,624	\$ 59,347
2005 Refunding	<u>5,560,000</u>	<u>-</u>	<u>365,000</u>	<u>5,195,000</u>
	5,647,021	-	392,624	5,254,347
Other Obligations-				
Compensated Absences	<u>108,000</u>	<u>9,775</u>	<u>-</u>	<u>117,775</u>
	<u>\$ 5,755,021</u>	<u>\$ 9,775</u>	<u>\$ 392,624</u>	<u>\$ 5,372,122</u>

Annual debt service requirements to maturity for the above governmental fund obligations are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 393,932	\$ 218,601	\$ 612,533
2014	409,586	202,747	612,333
2015	430,273	186,261	616,534
2016	445,556	168,943	614,499
2017	450,000	148,862	598,862
2018-2022	2,560,000	437,460	2,997,460
2023	<u>565,000</u>	<u>23,306</u>	<u>588,306</u>
	<u>\$ 5,254,347</u>	<u>\$ 1,386,180</u>	<u>\$ 6,640,527</u>

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 7. LONG-TERM DEBT (continued):

Bonds and other obligations payable consist of the following:

2005 Refunding Bonds, dated November 1, 2005, with interest of 4.015% payable May 1 and November 1.	\$ 5,195,000
Bus Notes payable	59,347
Accrued sick pay	<u>117,775</u>
	<u>\$ 5,372,122</u>

Other Obligations –

Compensated Absences:

The District accrues a liability for compensated absences which meet the following criteria:

- (1) The District's obligation relating to employees' rights to receive compensation for future absences is attributable to employees' services already rendered.
- (2) The obligation relates to rights that vest or accumulate.
- (3) Payment of the compensation is probable.
- (4) The amount can be reasonably estimated.

All teaching staff, after twelve years of employment with the district, are eligible to be reimbursed for accumulated sick days, up to a maximum of 188 days, upon retirement from teaching. They will be reimbursed at the then daily substitute teaching pay rate, which was \$75 for the year ended June 30, 2012. As of June 30, 2012 the amount which would be due upon retirement for eligible staff is \$117,775.

NOTE 8. 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 medical claims and participates in the SET-SEG risk pool for claims relating to workers' compensation, general liability, and property/casualty claims. Settled claims relating to the commercial insurance did not exceed the amount of coverage in any of the past three fiscal years.

The SET-SEG 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.

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 9. ECONOMIC DEPENDENCY:

Approximately 48% of the District's General Fund revenues are received from the State of Michigan through the Michigan Department of Education. This District is considered to be economically dependent on this revenue source.

NOTE 10. PENSION PLAN:

Plan Description - The School District participates in the Michigan Public School Employees Retirement System (MPSERS), 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 Michigan Public School Employees' Retirement System issues a publically available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 7150 Harris Drive, PO Box 30673, Lansing, MI 48909-8103.

Funding Policy - Employer contributions to the system result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis.

The pension benefit rate totals 20.66% for the period from July 1, 2011 through September 30, 2011, and 24.46% for the period October 1, 2012 through June 30, 2012 of the covered payroll. For those employees who must contribute to their retirement costs, the rates were 19.16% for the period from July 1, 2011 to September 30, 2011 and 22.23% for the period from October 1, 2011 to June 30, 2012 of the covered payroll. The School Districts contributions to the MPSERS plan for the year ended June 30, 2012 approximated \$500,100.

Postemployment Benefits - Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental, and vision coverage. Required contributions for postemployment health care benefits are included as part of the School District's total contribution to the MPSERS plan discussed above.

REQUIRED SUPPLEMENTAL INFORMATION

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

BUDGET COMPARISON SCHEDULE - GENERAL FUND
Year Ended June 30, 2012

	Original Budget	Final Amended Budget	Actual
REVENUES:			
Local Sources	\$ 1,916,180	\$ 1,935,420	\$ 1,979,142
State Sources	1,944,578	2,129,812	2,121,793
Federal Sources	153,698	207,783	177,188
Interdistrict and other sources	95,000	185,000	185,870
Total Revenues	4,109,456	4,458,015	4,463,993
EXPENDITURES:			
Instruction-			
Basic Programs	2,266,085	2,134,505	2,094,986
Added Needs	603,283	608,156	572,967
Supporting Services -			
Pupil	52,056	50,453	49,989
Instructional Staff	10,647	15,018	11,215
General Administration	87,426	96,712	84,041
School Administration	321,269	310,687	304,177
Business Services	164,695	144,961	140,888
Operation & Maintenance	640,722	598,231	565,483
Transportation	330,306	332,837	302,025
Support Services - Central	116,583	108,807	95,951
Support Services - Other	101,035	104,932	96,654
Community Services -			
Community Activities	300	350	350
Total Expenditures	4,694,407	4,505,649	4,318,726
OTHER FINANCING SOURCES (USES)			
Operating transfers out	(35,000)	(38,000)	(38,000)
Redemption of school bus loans	(27,350)	(27,525)	(27,522)
Interest on school bus loans	(4,010)	(3,120)	(3,118)
Net Other Financing Sources (Uses)	(66,360)	(68,645)	(68,640)
NET CHANGE IN FUND BALANCE	(651,311)	(116,279)	76,627
FUND BALANCE - BEGINNING OF YEAR	738,842	919,050	919,050
FUND BALANCE - END OF YEAR	\$ <u>87,531</u>	\$ <u>802,771</u>	\$ <u>995,677</u>

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

BUDGET COMPARISON SCHEDULE - FOOD SERVICE FUND
Year Ended June 30, 2012

	Original Budget	Final Amended Budget	Actual
REVENUES:			
Local Sources	\$ 50,500	\$ 53,375	\$ 55,581
State Sources	11,785	12,990	12,991
Federal Sources	215,198	215,990	216,092
Total Revenues	277,483	282,355	284,664
EXPENDITURES:			
Supporting Services - Food Service	313,179	330,636	325,810
OTHER FINANCING SOURCES (USES):			
Operating Transfer In	35,000	38,000	38,000
NET CHANGE IN FUND BALANCE	(696)	(10,281)	(3,146)
FUND BALANCE - BEGINNING OF YEAR	8,532	16,200	16,200
FUND BALANCE - END OF YEAR	\$ 7,836	\$ 5,919	\$ 13,054

OTHER SUPPLEMENTAL INFORMATION

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
Years Ended June 30, 2012 and 2011

REVENUES:	Years Ended June 30,	
	2012	2011
Local Sources -		
Current tax levy	\$ 1,832,380	\$ 1,789,696
Other taxes	5,920	30,184
Interest on delinquent taxes	15,038	11,689
Gate receipts	28,886	38,676
Participation fees	16,480	18,693
Transportion fees	6,101	4,700
Interest on investments	5,477	6,791
Rentals	7,200	12,300
Royalties	2,270	3,159
Local grants and donations	15,037	9,310
Medicaid outreach	0	5,500
Other	44,353	31,067
	1,979,142	1,961,765
State Sources -		
State Foundation Grant	1,654,842	1,806,985
Isolated districts	17,229	18,321
Best Financial Practices	51,760	0
MSPERS 147A	44,733	0
Court Placed Children	(1,252)	153
Special Education	107,661	106,927
At Risk - Section 31a	143,638	136,503
G.S.R.P.	91,918	92,730
CEPI Teachers/Student Datalink	0	2,827
Headlee Data Collection	11,264	8,513
Strong Family Safe Children	0	10,300
	2,121,793	2,183,259
Federal Sources -		
Title 1	113,859	132,316
ARRA Stabilization	0	61,373
ARRA Title 1	0	1,619
Education Jobs	8,772	116,115
Title II A	38,839	45,734
Small Rural Schools	14,307	9,795
ARRA Title II D	0	2,518
Medicaid Outreach	1,411	2,162
	177,188	371,632

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

GENERAL FUND
 STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE (CONTINUED)
Years Ended June 30, 2012 and 2011

	Years Ended June 30,	
	2012	2011
REVENUES (Continued):		
Interdistrict and Other Sources		
Transfers from other governmental units:		
AMA Educational School District	\$ 185,870	\$ 126,060
Total Revenues	4,463,993	4,642,716
EXPENDITURES:		
Instruction	2,667,953	2,886,676
Supporting Services	1,650,423	1,815,580
Community Services	350	300
Total Expenditures	4,318,726	4,702,556
OTHER FINANCING SOURCES (USES):		
Operating transfers out	(38,000)	0
Sales of fixed assets	0	3,800
Bus loan proceeds	0	73,000
Redemption of school bus loans	(27,522)	(13,521)
Interest on school bus loans	(3,118)	(1,176)
Net Other Financing Sources (Uses)	(68,640)	62,103
NET CHANGE IN FUND BALANCE	76,627	2,263
FUND BALANCE - BEGINNING OF YEAR	919,050	916,787
FUND BALANCE - END OF YEAR	\$ 995,677	\$ 919,050

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

GENERAL FUND
 DETAIL OF EXPENDITURES
Years Ended June 30, 2012 and 2011

INSTRUCTION:	Salaries	Employee Benefits	Purchased Services	Supplies and Other Costs	Other Expenses	Capital Outlay	Totals Year Ended June 30,	
							2012	2011
Basic Programs -								
Elementary	\$ 610,161	\$ 406,242	\$ 19,982	\$ 15,880	\$ 1,014	\$ 0	\$ 1,053,279	\$ 1,120,760
Secondary	519,873	311,914	76,748	34,172	1,014	14,594	958,315	1,060,344
Pre School	42,559	31,807	1,696	7,330	0	0	83,392	84,419
Total Basic Programs	1,172,593	749,963	98,426	57,382	2,028	14,594	2,094,986	2,265,523
Added Needs -								
Special Education	205,373	115,993	3,295	977	0	0	325,638	323,142
Compensatory Education	152,264	83,913	4,287	6,865	0	0	247,329	298,011
Total Added Needs	357,637	199,906	7,582	7,842	0	0	572,967	621,153
Total Instruction	1,530,230	949,869	106,008	65,224	2,028	14,594	2,667,953	2,886,676
SUPPORTING SERVICES:								
Guidance Services	220	67	48,657	1,045	0	0	49,989	48,323
Instructional Staff Services -								
Improvement of Instruction	0	0	1,906	0	0	0	1,906	0
Educational Media Services	0	0	0	0	0	0	0	90
Instructional Related Technology	0	0	0	0	0	0	0	2,518
Supervision and Direction	5,181	3,345	0	0	0	0	8,526	8,311
Academic Student Assessment	0	0	0	783	0	0	783	142
Total Instructional Staff	5,181	3,345	1,906	783	0	0	11,215	11,061

HILLMAN COMMUNITY SCHOOLS
 Alpena, Montmorency and Presque Isle Counties, Michigan

GENERAL FUND
 DETAIL OF EXPENDITURES (CONTINUED)
Years Ended June 30, 2012 and 2011

SUPPORTING SERVICE (CONTINUED):	Salaries	Employee Benefits	Purchased Services	Supplies and Other Costs	Other Expenses	Capital Outlay	Totals Year Ended June 30,	
							2012	2011
General Administration Services -								
Board of Education	\$ 0	\$ 0	\$ 27,125	\$ 0	\$ 6,807	\$ 0	\$ 33,932	\$ 47,057
Executive Administration	25,367	16,611	2,105	0	6,026	0	50,109	51,565
Total General Administrative Services	25,367	16,611	29,230	0	12,833	0	84,041	98,622
School Administrative Services -								
Office of the Principal	176,538	124,178	1,605	1,856	0	0	304,177	269,830
Business Services -								
Fiscal Services	51,895	41,274	649	1,052	233	0	95,103	96,001
Other Business Services	0	0	26,038	0	19,747	0	45,785	33,237
Total Business Services	51,895	41,274	26,687	1,052	19,980	0	140,888	129,238
Operations and Maintenance -								
Operations of Buildings Services	153,404	135,062	91,290	155,849	0	28,950	564,555	597,493
Security Services	0	0	928	0	0	0	928	1,068
Total Operations and Maintenance	153,404	135,062	92,218	155,849	0	28,950	565,483	598,561
Pupil Transportation Services -								
Pupil Transportation Services	149,571	73,885	8,788	67,392	991	1,398	302,025	453,662
Support Services - Central -								
Staff/Personnel Services	12,305	9,065	0	0	0	0	21,370	20,323
Non Instructional Technology	0	0	52,500	22,081	0	0	74,581	79,606
Total Support Services - Central	12,305	9,065	52,500	22,081	0	0	95,951	99,929
Support Services - Other -								
Athletics	24,538	7,096	52,423	10,322	2,275	0	96,654	106,354
Total Supporting Services	599,019	410,583	314,014	260,380	36,079	30,348	1,650,423	1,815,580
COMMUNITY SERVICES:								
Community Activities	0	0	350	0	0	0	350	300
Total Expenditures	\$ 2,129,249	\$ 1,360,452	\$ 420,372	\$ 325,604	\$ 38,107	\$ 44,942	\$ 4,318,726	\$ 4,702,556

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

FOOD SERVICE FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
Years Ended June 30, 2012 and 2011

REVENUES:	Years Ended June 30,	
	2012	2011
Local Sources -		
Cafeteria sales	\$ 46,033	\$ 50,436
Milk machine	95	1,648
Earnings on investments	0	20
Headstart sales	4,967	5,444
GSRP lunches	2,434	2,404
Other	2,052	1,548
Total Local Sources	55,581	61,500
State Sources -		
Section 31a At Risk	2,820	2,840
Section 31d School Lunch	10,171	8,575
Total State Sources	12,991	11,415
Federal Sources -		
National School Lunch Program	140,181	152,442
National School Breakfast Program	56,583	57,044
Fresh Food & Vegetable	0	13,500
Donated commodities - Entitlement	17,547	16,900
Donated commodities - Bonus	1,781	160
Total Federal Sources	216,092	240,046
Total Revenues	284,664	312,961
EXPENDITURES:		
Supporting Services -		
Food Service -		
Salaries and wages	82,122	85,143
Employee benefits	67,668	66,423
Purchased services	6,876	3,260
Food and milk	116,424	128,774
USDA Delivery charge	21,966	24,015
Sales tax	737	223
Supplies and other costs	7,017	6,296
Indirect costs	23,000	0
Total Expenditures	325,810	314,134
OTHER FINANCING SOURCES:		
Operating Transfers in	38,000	0
NET CHANGE IN FUND BALANCES	(3,146)	(1,173)
FUND BALANCE - BEGINNING OF YEAR	16,200	17,373
FUND BALANCE - END OF YEAR	\$ 13,054	\$ 16,200

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

2005 DEBT RETIREMENT FUND
 STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE
Years Ended June 30, 2012 and 2011

REVENUES:	Years Ended June 30,	
	2012	2011
Local Sources -		
Current tax levy	\$ 559,349	\$ 549,239
Other taxes	1,171	1,601
Interest on delinquent taxes	5,343	3,358
Earnings on investments	40	635
Total Local Sources	565,903	554,833
State Sources -		
Payment in lieu of taxes	76	17,549
Total Revenues	565,979	572,382
EXPENDITURES:		
Debt Service -		
Bond principal	365,000	355,000
interest on bonded debt	229,499	241,924
Paying agent fees	225	225
Taxes paid back	3,452	722
Total Expenditures	598,176	597,871
NET CHANGE IN FUND BALANCES	(32,197)	(25,489)
FUND BALANCE - BEGINNING OF YEAR	131,131	156,620
FUND BALANCE - END OF YEAR	\$ 98,934	\$ 131,131

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

FIDUCIARY FUND
 STATEMENT OF DUE SCHOOL ORGANIZATIONS
Years Ended June 30, 2012 and 2011

	June 30,	
	2012	2011
ELEMENTARY -		
Camp	\$ 556	\$ 556
Fines	510	321
Funding Factory	0	145
General Purpose	702	180
Library	243	0
MiBLSi	35	159
Physical Education	1	0
Playground	892	892
School Spirit Store	584	1,062
Student Improvement	383	618
	3,906	3,933
HIGH SCHOOL -		
Class of 2011	0	12
Class of 2012	2,094	4,889
Class of 2013	2,937	3,434
Class of 2014	3,569	2,880
Class of 2015	3,367	1,059
Class of 2016	2,381	0
Band	3,449	3,449
Baseball	1,374	450
Basketball - Girls	7,651	6,721
Basketball - Boys	1	381
Basketball - Jr High	178	178
Broadcasting	163	652
Cheerleading	59	2
Corn Maze	1,205	1,560
Drama	418	418
Fines & Supplies	167	0
Football	792	968
Golf	263	263
Honor Society	754	1,443

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

FIDUCIARY FUND
 STATEMENT OF DUE TO SCHOOL ORGANIZATIONS (CONTINUED)
Years Ended June 30, 2012 and 2011

	June 30,	
	2012	2011
HIGH SCHOOL (Continued) -		
Library	\$ 431	\$ 431
No Detention	5	0
Physics	990	766
Pizza Club	366	366
Rentals	824	990
Revolving Account	315	180
Scholarship	9,500	0
Shop	883	583
Softball	403	846
Spanish	70	10
Special Ed	764	93
Student	326	1,079
Student Council	1,654	1,933
Student Improvement	239	123
Track	550	635
Track - Junior High	125	0
Volleyball	1,095	2,272
Youth Community Service	689	689
Yearbook	5,378	5,276
	55,429	45,031
Total High School	\$ 59,335	\$ 48,964

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

DETAIL OF BONDED DEBT
 2005 REFUNDING BONDS
June 30, 2012

Purpose of issue -
 Refund 1997 Building & Site Bonds
 Amount of issue: \$ 6,980,000
 Interest rate - 3.000% to 4.125%
 Date of issue - May 1, 2005

<u>Date</u>	<u>May, 1</u>		<u>November, 1</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 0	\$ 0	\$ 107,906	\$ 107,906
2013	380,000	107,906	100,306	588,212
2014	395,000	100,306	92,406	587,712
2015	415,000	92,406	84,106	591,512
2016	430,000	84,106	74,431	588,537
2017	450,000	74,431	64,306	588,737
2018	470,000	64,306	53,731	588,037
2019	490,000	53,731	43,931	587,662
2020	510,000	43,931	33,731	587,662
2021	535,000	33,731	23,031	591,762
2022	555,000	23,031	11,653	589,684
2023	565,000	11,653	0	576,653
	\$ <u>5,195,000</u>	\$ <u>689,538</u>	\$ <u>689,538</u>	\$ <u>6,574,076</u>

HILLMAN COMMUNITY SCHOOLS
Alpena, Montmorency and Presque Isle Counties, Michigan

DETAIL OF BUS NOTE PAYABLE
June 30, 2012

Security: 2010 77 passenger bus
Date of Loan: Novemebr 12, 2010
Interest Rate: 4.70%

Date	<u>Payment</u>	<u>Principal</u>	<u>Interest</u>
November 01,2012	\$ 16,721	\$ 13,932	\$ 2,789
November 01,2013	16,721	14,586	2,135
November 01,2014	16,722	15,273	1,449
November 01,2015	<u>16,287</u>	<u>15,556</u>	<u>731</u>
	\$ <u>66,451</u>	\$ <u>59,347</u>	\$ <u>7,104</u>

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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**

September 14, 2012

Board of Education
Hillman Community Schools
Alpena, Montmorency and Presque Isle Counties
Hillman, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hillman Community Schools, as of and for the year ended June 30, 2012, which collectively comprise the Hillman Community Schools' basic financial statements and have issued our report thereon dated September 14, 2012. 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.

Internal Control Over Financial Reporting

Management of the Hillman Community Schools is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Hillman Community Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hillman Community Schools' internal control over financial reporting.

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

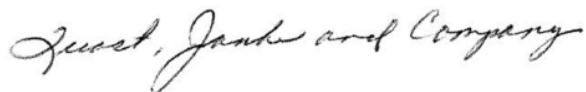
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hillman Community Schools' 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 statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under the *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Trustees, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

QUAST, JANKE & CO.



Certified Public Accountants, P.C.