

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

FINANCIAL REPORT  
WITH SUPPLEMENTAL INFORMATION  
June 30, 2011

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**INDEPENDENT AUDITOR'S REPORT**

September 19, 2011

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 and each major fund of the Hillman Community Schools, as of and for the years ended June 30, 2011 and 2010, which collectively comprise the Hillman Community Schools' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Hillman Community Schools' 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 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 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 accounting principles used and the 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, 2011 and 2010, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2011 on our consideration of the Hillman Community Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

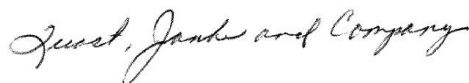
To The Board of Education  
Hillman Community Schools  
September 19, 2011  
Page 2

Accounting principles general 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hillman Community Schools' basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards 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 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hillman Community Schools' basic financial statements. The introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has 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 it.

QUAST, JANKE AND COMPANY



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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, 2011 and 2010. 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, 2011 and 2010.

TABLE 1:

	<u>Governmental Activities</u>	
	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Assets		
Current and other assets	\$ 1,813,858	\$ 1,781,840
Capital assets – Net of accumulated depreciation	<u>7,383,984</u>	<u>7,549,582</u>
Total assets	9,197,842	9,331,422
Liabilities		
Current liabilities	936,326	946,935
Long-term liabilities	<u>5,362,709</u>	<u>5,574,013</u>
Total liabilities	<u>6,299,035</u>	<u>6,520,948</u>
<b>Net Assets</b>		
Invested in property and equipment – Net of related debt	1,736,963	1,607,192
Restricted	3,510	3,213
Unrestricted	<u>1,158,334</u>	<u>1,200,069</u>
Total net assets	<u>\$ 2,898,807</u>	<u>\$ 2,810,474</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 \$2,898,807 at June 30, 2011. 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 \$1,158,334 was unrestricted.

The \$1,158,334 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, 2011 and 2010.

TABLE 2:

	<u>Governmental Activities</u>	
	<u>Year Ended June 30,</u>	
	<u>2011</u>	<u>2010</u>
Program revenue:		
Charges for services	\$ 129,048	\$ 124,777
Grants and categoricals	1,116,264	1,178,438
General revenue:		
Property taxes	2,382,409	2,336,500
State PILT	17,549	0
State foundation allowance	1,825,459	1,873,467
Investment earnings	26,263	31,059
Gains on sales of fixed assets	3,800	0
Other	<u>31,068</u>	<u>31,803</u>
 Total revenue	 5,531,860	 5,576,044
 <b>Function/Program Expenses</b>		
Instruction	2,884,600	2,832,101
Support services	1,705,489	1,759,441
Community services	300	258
Food services	326,662	309,571
Interest on long-term debt	264,730	274,643
Depreciation (unallocated)	<u>261,746</u>	<u>263,177</u>
 Total expenses	 <u>5,443,527</u>	 <u>5,439,191</u>
 <b>Increase (Decrease) in Net Assets</b>	 <u>\$ 88,333</u>	 <u>\$ 136,853</u>



## **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 \$5,443,527. 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 \$2,399,958 in taxes, \$1,825,459 in State Foundation Allowance, and with our other revenues, such as interest and general entitlements.

The School District experienced an increase in net assets of \$88,333. 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 \$1,066,381, which is a decrease of \$24,399 from last year. The primary reason for this decrease is property valuation decreases reducing property tax revenue. Also, in the General Fund, our principal operating fund, the balance increased \$2,263 to \$919,050. Overall, actual General Fund revenue and expenses were within 99 and 96 percent of budgeted amounts, respectively.

The 2005 Debt Retirement Fund fund balance decreased by \$25,489.  
The Food Service Fund Balance decreased by \$1,173.

### **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, 2011, the School District had \$13,154,127 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 \$84,733.

	<u>2011</u>	<u>2010</u>
Land and improvements	\$ 563,234	\$ 563,234
Buildings and improvements	9,795,961	9,795,961
Buses and Other Vehicles	705,906	638,366
Equipment	<u>2,089,026</u>	<u>2,071,833</u>
Total capital assets	13,154,127	13,069,394
Less accumulated depreciation	<u>5,770,143</u>	<u>5,519,812</u>
Net capital assets	<u>\$ 7,383,984</u>	<u>\$ 7,549,582</u>

This year's additions of \$165,059 consisted of two (2) buses and other equipment.

**Debt**

At the end of this year, the School District had \$5,647,021 in bonds outstanding versus \$5,942,398 in the previous year – a decrease of 4.97 percent. These bonds consisted of the following:

2005 Refunding Bonds	\$ 5,560,000
Bus notes	<u>87,021</u>
	<u>\$ 5,647,021</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 \$5,647,021 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 2012 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 2012 fiscal year is 25 percent and 75 percent of the February 2011 and September 2011 student counts, respectively. The 2012 fiscal year budget was adopted in June 2011, based on an estimate of students that will be enrolled in September of 2011. Approximately 47 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 2011-2012 school year, we anticipate that the fall student count will be slightly less than the estimates used in creating the 2012 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 decreases 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, 2011 and 2010

	June 30,	
	2011	2010
<b>ASSETS:</b>		
Cash & equivalents	\$ 1,136,974	\$ 1,082,301
Accounts receivable	1,005	0
Due from State of Michigan	427,960	431,263
Inventories	3,510	3,213
Dererred bond costs	361,450	361,450
Accumulated amortization	(117,041)	(96,387)
Capital assets	13,154,127	13,069,394
Accumulated depreciation	(5,770,143)	(5,519,812)
Total Assets	9,197,842	9,331,422
<b>LIABILITIES:</b>		
Accounts payable	1,610	2,702
Accrued payroll and other liabilities	476,229	498,123
Accrued interest	40,945	40,346
Deferred revenue	25,230	37,387
Compensated absences	108,000	112,214
Current portion of long term liabilities	392,312	368,377
Non current portion of long term liabilities	5,254,709	5,461,799
Total Liabilities	6,299,035	6,520,948
<b>NET ASSETS:</b>		
Investment in capital assets - net of related debt	1,736,963	1,719,406
Restricted	3,510	3,213
Unrestricted	1,158,334	1,087,855
Total Net Assets	\$ 2,898,807	\$ 2,810,474

See Notes to Financial Statements

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

STATEMENT OF ACTIVITIES  
Years Ended June 30, 2011 and 2010

	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, 2011	2010
GOVERNMENTAL ACTIVITIES:						
Instruction	\$ 2,884,600	\$ 5,500	\$ 808,922	\$ 4,375	\$ (2,065,803)	\$ (1,990,808)
Supporting Services	1,705,489	62,069	48,670	2,535	(1,592,215)	(1,625,288)
Community Services	300	0	300	0	0	(258)
Food Services	326,662	61,479	251,462	0	(13,721)	18,198
Interest on long term debt	264,730	0	0	0	(264,730)	(274,643)
Depreciation (Unallocated)	<u>261,746</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(261,746)</u>	<u>(263,177)</u>
Total Governmental Activities	\$ <u>5,443,527</u>	\$ <u>129,048</u>	\$ <u>1,109,354</u>	\$ <u>6,910</u>	(4,198,215)	(4,135,976)
GENERAL PURPOSE REVENUES:						
Property taxes, levied for general purposes					1,831,569	1,757,083
Property taxes, levied for debt retirement					550,840	579,417
State school aid - Unrestricted					1,825,459	1,873,467
State PILT					17,549	0
Investment earnings					26,263	31,059
Gain on sales of fixed assets					3,800	0
Other					<u>31,068</u>	<u>31,803</u>
Total General Purpose Revenues					<u>4,286,548</u>	<u>4,272,829</u>
Change in Net Assets					88,333	136,853
Net Assets - Beginning of Year					<u>2,810,474</u>	<u>2,673,621</u>
Net Assets - End of Year					\$ <u>2,898,807</u>	\$ <u>2,810,474</u>

See Notes to Financial Statements

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

GOVERNMENTAL FUNDS BALANCE SHEET  
June 30, 2011 and 2010

<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>2011</u>	<u>2010</u>
Cash	\$ 979,870	\$ 25,972	\$ 131,131	\$ 0	\$ 1,136,973	\$ 1,082,302
Accounts receivable	1,005	0	0	0	1,005	0
Due from State of Michigan	427,960	0	0	0	427,960	431,263
Due from other funds	0	0	0	0	0	0
Inventory	0	3,510	0	0	3,510	3,213
	<u>\$ 1,408,835</u>	<u>\$ 29,482</u>	<u>\$ 131,131</u>	<u>\$ 0</u>	<u>\$ 1,569,448</u>	<u>\$ 1,516,778</u>
 <u>LIABILITIES AND FUND EQUITY</u>						
LIABILITIES:						
Accounts payable	\$ 1,610	\$ 0	\$ 0	\$ 0	\$ 1,610	\$ 2,702
Salaries payable	332,048	8,146	0	0	340,194	273,450
Retirement	68,221	1,683	0	0	69,904	46,322
Payroll taxes	24,516	571	0	0	25,087	20,645
Employee benefits	39,333	1,710	0	0	41,043	45,492
Due to other funds	0	0	0	0	0	0
Deferred revenue	24,057	1,172	0	0	25,229	37,387
Total Liabilities	489,785	13,282	0	0	503,067	425,998
Fund Equity:						
Nonspendable	0	3,510	0	0	3,510	3,213
Restricted	0	12,690	131,131	0	143,821	170,780
Assigned	651,311	0	0	0	651,311	0
Unassigned	267,739	0	0	0	267,739	916,787
Total Fund Equity	919,050	16,200	131,131	0	1,066,381	1,090,780
	<u>\$ 1,408,835</u>	<u>\$ 29,482</u>	<u>\$ 131,131</u>	<u>\$ 0</u>	<u>\$ 1,569,448</u>	<u>\$ 1,516,778</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, 2011

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$	1,066,381
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		13,154,127
Accumulated depreciation		(5,770,143)
Long term liabilities not due and payable in the current period and therefore not reported in the funds -		
Bonds payable		(5,647,021)
Compensated balances		(108,000)
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		(117,041)
Accrued interest payable not included as a liability in governmental activities		(40,945)
Rounding		<u>(1)</u>
TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES	\$	<u><u>2,898,807</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, 2011 and 2010

	GENERAL		FOOD SERVICE		2005 DEBT RETIREMENT		OTHER NONMAJOR GOVERNMENTAL FUNDS		TOTALS JUNE 30,			
									2011	2010		
<b>REVENUES:</b>												
Local Sources	\$	1,961,765	\$	61,500	\$	554,833	\$	0	\$	2,578,098	\$	2,506,360
State Sources -		2,183,259		11,415		17,549		21,130		2,233,353		2,283,448
Federal Sources		371,632		240,046		0		0		611,678		659,359
Interdistrict and Other Sources		126,060		0		0		0		126,060		129,871
<b>Total Revenues</b>		<b>4,642,716</b>		<b>312,961</b>		<b>572,382</b>		<b>21,130</b>		<b>5,549,189</b>		<b>5,579,038</b>
<b>EXPENDITURES:</b>												
Instruction		2,886,676		0		0		0		2,886,676		2,968,104
Supporting Services		1,815,580		0		0		0		1,815,580		1,738,168
Community Services		300		0		0		0		300		258
Food Service		0		314,134		0		0		314,134		325,347
Debt Service -												
Principal Repayment		0		0		355,000		15,473		370,473		342,611
Interest and Fiscal Charges		0		0		242,871		5,657		248,528		255,343
<b>Total Expenditures</b>		<b>4,702,556</b>		<b>314,134</b>		<b>597,871</b>		<b>21,130</b>		<b>5,635,691</b>		<b>5,629,831</b>
<b>OTHER FINANCING SOURCES (USES):</b>												
Bus note proceeds		73,000		0		0		0		73,000		0
Redemption of school bus loans		(13,521)		0		0		0		(13,521)		(12,762)
Interest on school bus loans		(1,176)		0		0		0		(1,176)		(1,935)
Sale of Fixed Assets		3,800		0		0		0		3,800		150
<b>Net Other Financing Sources (Uses)</b>		<b>62,103</b>		<b>0</b>		<b>0</b>		<b>0</b>		<b>62,103</b>		<b>(14,547)</b>
<b>NET CHANGE IN FUND BALANCES</b>		<b>2,263</b>		<b>(1,173)</b>		<b>(25,489)</b>		<b>0</b>		<b>(24,399)</b>		<b>(65,340)</b>
<b>FUND BALANCE - BEGINNING OF YEAR</b>		<b>916,787</b>		<b>17,373</b>		<b>156,620</b>		<b>0</b>		<b>1,090,780</b>		<b>1,156,120</b>
<b>FUND BALANCE - END OF YEAR</b>	\$	<b>919,050</b>	\$	<b>16,200</b>	\$	<b>131,131</b>	\$	<b>0</b>	\$	<b>1,066,381</b>	\$	<b>1,090,780</b>

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, 2011

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS	\$		\$ (24,399)
<p>Amounts reported for governmental activities in the statement of activities are different because -</p> <p>Governmental funds report capital outlays as expenditures in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:</p>			
Depreciation expense		(330,657)	
Capital outlay		<u>165,059</u>	
Net			(165,598)
Accrued interest recorded in the statement of activities when incurred and reported in governmental funds when paid			(599)
Bond principal repayment reported as an expenditure in governmental funds and as a reduction of long term debt in the statement of activities			368,369
Bus loan proceeds reported as income in governmental funds when received and as an increase in long term debt in the statement of activities.			(73,000)
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)
Decreases in compensated absences are reported as expenditures when financial resources are used in the governmental funds in accordance with GASB Interpretation No. 6			<u>4,214</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$		<u><u>88,333</u></u>

See Notes to Financial Statements

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

FIDUCIARY FUND  
BALANCE SHEET  
June 30, 2011 and 2010

	June 30,	
	<u>2011</u>	<u>2010</u>
<u>ASSETS</u>		
Cash in bank	\$ <u>48,964</u>	\$ <u>53,418</u>
 <u>LIABILITIES</u>		
Due to school organizations	\$ <u>48,964</u>	\$ <u>53,418</u>

See Notes to Financial Statements

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

NOTES TO FINANCIAL STATEMENTS  
June 30, 2011

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, 2011

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, 2011

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, 2011

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, 2011 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, 2011

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>\$1,136,973</u>	<u>\$ 48,964</u>	<u>\$ 1,185,937</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.	\$ 748,525
Category 2.	0
Category 3.	<u>437,412</u>
Total Bank Balances	<u>\$ 1,185,937</u>
Carrying Amount	<u>\$ 1,185,937</u>

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

NOTES TO FINANCIAL STATEMENTS  
June 30, 2011

NOTE 4. CAPITAL ASSETS:

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

	Balance July 1, 2010	Additions	Disposal	Balance June 30, 2011
Land and improvements	\$ 563,234	\$ -	\$ -	\$ 563,234
Buildings and improvements	9,795,961	-	-	9,795,961
Buses and other vehicles	638,366	147,866	80,326	705,906
Furniture and equipment	<u>2,071,833</u>	<u>17,193</u>	<u>-</u>	<u>2,089,026</u>
Total Capital Assets	13,069,394	165,059	80,326	13,154,127
Accumulated Depreciation				
Land and improvements	173,030	15,855	-	188,885
Buildings and improvements	3,255,243	189,106	-	3,444,349
Buses and other vehicles	557,878	36,469	80,326	514,021
Furniture and equipment	<u>1,533,661</u>	<u>89,227</u>	<u>-</u>	<u>1,622,888</u>
Total Accumulated Depreciation	<u>5,519,812</u>	<u>330,657</u>	<u>80,326</u>	<u>5,770,143</u>
Capital Assets	<u>\$ 7,549,582</u>	<u>\$(165,598)</u>	<u>\$ -</u>	<u>\$ 7,383,984</u>

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

Governmental activities:

Instruction	\$ 8,914
Support services	47,470
Food services	12,527
Unallocated	<u>261,746</u>

Total governmental activities \$ 330,657

NOTE 5. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS:

There were no interfund receivables or payables.

There were no operating transfers.

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



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

NOTES TO FINANCIAL STATEMENTS  
June 30, 2011

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

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 30, 2011:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reduction</u>	<u>Ending Balance</u>
Bonds Payable-				
Bus Notes	\$ 27,398	\$ 73,000	\$ 13,377	\$ 87,021
2005 Refunding	<u>5,915,000</u>	<u>-</u>	<u>355,000</u>	<u>5,560,000</u>
	5,942,398	73,000	368,377	5,647,021
Other Obligations-				
Compensated Absences	<u>112,214</u>	<u>-</u>	<u>4,214</u>	<u>108,000</u>
	<u>\$ 6,054,612</u>	<u>\$ 73,000</u>	<u>\$ 372,591</u>	<u>\$ 5,755,021</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>
2012	\$ 392,312	\$ 233,499	\$ 625,811
2013	393,915	218,618	612,533
2014	409,569	202,764	612,333
2015	430,254	186,280	616,534
2016	445,971	168,963	614,934
2017-2021	2,455,000	540,260	2,995,260
2022-2023	<u>1,120,000</u>	<u>69,368</u>	<u>1,189,368</u>
	<u>\$ 5,647,021</u>	<u>\$ 1,619,752</u>	<u>\$ 7,266,773</u>

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

NOTES TO FINANCIAL STATEMENTS  
June 30, 2011

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.	\$ 5,560,000
Bus Notes payable	87,021
Accrued sick pay	<u>108,000</u>
	<u>\$ 5,755,021</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, 2011. As of June 30, 2011 the amount which would be due upon retirement for eligible staff is \$108,000.

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.

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

NOTES TO FINANCIAL STATEMENTS  
June 30, 2011

NOTE 8. RISK MANAGEMENT (continued):

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.

NOTE 9. ECONOMIC DEPENDENCY:

Approximately 47% 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 16.94% for the period from July 1, 2010 through September 30, 2010, and 20.66% for the period October 1, 2010 through June 30, 2011 of the covered payroll to the plan. The School Districts contributions to the MPSERS plan for the year ended June 30, 2011 approximated \$471,000.

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 coverage 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, 2011

	Original Budget	Final Amended Budget	Actual
REVENUES:			
Local Sources	\$ 1,803,835	\$ 1,946,485	\$ 1,961,765
State Sources	2,189,667	2,205,350	2,183,259
Federal Sources	173,512	371,818	371,632
Interdistrict and other sources	90,000	126,000	126,060
	<hr/>	<hr/>	<hr/>
Total Revenues	4,257,014	4,649,653	4,642,716
EXPENDITURES:			
Instruction-			
Basic Programs	2,236,368	2,326,017	2,265,523
Added Needs	626,102	635,342	621,153
Supporting Services -			
Pupil	51,584	49,536	48,323
Instructional Staff	16,528	12,806	11,061
General Administration	127,560	111,804	98,622
School Administration	238,221	276,883	269,830
Business Services	177,547	138,306	129,238
Operation & Maintenance	651,189	637,664	598,561
Transportation	320,095	472,226	453,662
Support Services - Central	133,881	113,500	99,929
Support Services - Other	103,061	111,464	106,354
Community Services -			
Community Activities	0	300	300
	<hr/>	<hr/>	<hr/>
Total Expenditures	4,682,136	4,885,848	4,702,556
OTHER FINANCING SOURCES (USES)			
Sale of assets	0	0	3,800
Bus loan proceeds	0	73,000	73,000
Operating transfers out	(35,000)	0	0
Redemption of school bus loans	(13,400)	(13,550)	(13,521)
Interest on school bus loans	(1,350)	(1,200)	(1,176)
	<hr/>	<hr/>	<hr/>
Net Other Financing Sources (Uses)	(49,750)	58,250	62,103
NET CHANGE IN FUND BALANCE	(474,872)	(177,945)	2,263
FUND BALANCE - BEGINNING OF YEAR	777,787	916,787	916,787
	<hr/>	<hr/>	<hr/>
FUND BALANCE - END OF YEAR	\$ 302,915	\$ 738,842	\$ 919,050

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

BUDGET COMPARISON SCHEDULE - FOOD SERVICE FUND  
Year Ended June 30, 2011

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>
<b>REVENUES:</b>			
Local Sources	\$ 49,470	\$ 60,147	\$ 61,500
State Sources	14,030	11,605	11,415
Federal Sources	<u>198,563</u>	<u>242,013</u>	<u>240,046</u>
Total Revenues	262,063	313,765	312,961
<b>EXPENDITURES:</b>			
Supporting Services - Food Service	299,963	322,605	314,314
<b>OTHER FINANCING SOURCES (USES):</b>			
Operating Transfer In	<u>35,000</u>	<u>0</u>	<u>0</u>
NET CHANGE IN FUND BALANCE	(2,900)	(8,840)	(1,353)
FUND BALANCE - BEGINNING OF YEAR	<u>7,592</u>	<u>17,373</u>	<u>17,373</u>
FUND BALANCE - END OF YEAR	\$ <u><u>4,692</u></u>	\$ <u><u>8,533</u></u>	\$ <u><u>16,020</u></u>

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, 2011 and 2010

REVENUES:	Years Ended June 30,	
	2011	2010
Local Sources -		
Current tax levy	\$ 1,789,696	\$ 1,730,779
Other taxes	30,184	13,470
Interest on delinquent taxes	11,689	12,834
Gate receipts	38,676	34,117
Participation fees	18,693	18,500
Transportation fees	4,700	3,024
Interest on investments	6,791	8,047
Rentals	12,300	18,000
Royalties	3,159	3,018
Local grants and donations	9,310	8,398
Medicaid outreach	5,500	14,580
Other	31,067	20,835
Total Local Sources	1,961,765	1,885,602
State Sources -		
State Foundation Grant	1,806,985	1,850,838
Isolated districts	18,321	17,927
Court Placed Children	153	4,702
Special Education	106,927	99,294
At Risk - Section 31a	136,503	188,335
G.S.R.P.	92,730	76,040
CEPI Teachers/Student Datalink	2,827	0
Headlee Data Collection	8,513	0
Strong Family Safe Children	10,300	9,602
Total State Sources	2,183,259	2,246,738
Federal Sources -		
Title 1	132,316	123,877
ARRA Stabilization	61,373	152,251
ARRA Title 1	1,619	63,469
Education Jobs	116,115	0
Title II A	45,734	49,513
Safe & Drug Free Schools	0	2,044
Small Rural Schools	9,795	10,929
ARRA Title II D	2,518	0
Medicaid Outreach	2,162	0
Total Federal Sources	371,632	402,083



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, 2011 and 2010

	Years Ended June 30,	
	2011	2010
REVENUES (Continued):		
Interdistrict and Other Sources		
Transfers from other governmental units:		
AMA Educational School District	\$ 126,060	\$ 129,871
Total Revenues	4,642,716	4,664,294
EXPENDITURES:		
Instruction	2,886,676	2,968,104
Supporting Services	1,815,580	1,738,168
Community Services	300	258
Total Expenditures	4,702,556	4,706,530
OTHER FINANCING SOURCES (USES):		
Sales of fixed assets	3,800	150
Bus loan proceeds	73,000	0
Redemption of school bus loans	(13,521)	(12,762)
Interest on school bus loans	(1,176)	(1,935)
Net Other Financing Sources (Uses)	62,103	(14,547)
NET CHANGE IN FUND BALANCE	2,263	(56,783)
FUND BALANCE - BEGINNING OF YEAR	916,787	973,570
FUND BALANCE - END OF YEAR	\$ 919,050	\$ 916,787

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

GENERAL FUND  
 DETAIL OF EXPENDITURES  
Years Ended June 30, 2011 and 2010

INSTRUCTION:	Salaries	Employee Benefits	Purchased Services	Supplies and Other Costs	Other Expenses	Capital Outlay	Totals Year Ended June 30,	
							2011	2010
Basic Programs -								
Elementary	\$ 660,296	\$ 426,408	\$ 16,551	\$ 16,307	\$ 1,198	\$ 0	\$ 1,120,760	\$ 1,168,856
Secondary	581,222	354,038	92,273	24,242	1,793	6,776	1,060,344	1,073,945
Pre School	42,417	32,551	900	8,551	0	0	84,419	67,852
Total Basic Programs	1,283,935	812,997	109,724	49,100	2,991	6,776	2,265,523	2,310,653
Added Needs -								
Special Education	204,823	115,133	2,327	859	0	0	323,142	313,833
Compensatory Education	168,512	126,009	1,705	1,785	0	0	298,011	343,618
Total Added Needs	373,335	241,142	4,032	2,644	0	0	621,153	657,451
Total Instruction	1,657,270	1,054,139	113,756	51,744	2,991	6,776	2,886,676	2,968,104
SUPPORTING SERVICES:								
Pupil -								
Truancy Services	0	0	0	0	0	0	0	2,874
Guidance Services	12,271	8,515	26,501	1,036	0	0	48,323	54,013
Teacher Consultant	0	0	0	0	0	0	0	997
Total Pupil	12,271	8,515	26,501	1,036	0	0	48,323	57,884
Instructional Staff Services -								
Improvement of Instruction	0	0	0	0	0	0	0	567
Educational Media Services	0	0	90	0	0	0	90	3,105
Educational Television	0	0	0	0	0	0	0	1,737
Instructional Related Technology	0	0	0	2,518	0	0	2,518	18,300
Supervision and Direction	5,314	2,997	0	0	0	0	8,311	8,189
Academic Student Assessment	0	0	0	142	0	0	142	688
Total Instructional Staff	5,314	2,997	90	2,660	0	0	11,061	32,586

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

GENERAL FUND  
 DETAIL OF EXPENDITURES (CONTINUED)  
Years Ended June 30, 2011 and 2010

SUPPORTING SERVICE (CONTINUED):	Salaries	Employee Benefits	Purchased Services	Supplies and Other Costs	Other Expenses	Capital Outlay	Totals Year Ended June 30,	
							2011	2010
General Administration Services -								
Board of Education	\$ 2,815	\$ 239	\$ 38,073	\$ 0	\$ 5,930	\$ 0	\$ 47,057	\$ 24,786
Executive Administration	24,703	20,487	627	0	5,748	0	51,565	140,491
Total General Administrative Services	27,518	20,726	38,700	0	11,678	0	98,622	165,277
School Administrative Services -								
Office of the Principal	180,078	86,413	1,131	2,208	0	0	269,830	231,128
Business Services -								
Fiscal Services	51,342	42,642	510	1,095	412	0	96,001	126,947
Other Business Services	0	0	21,132	0	12,105	0	33,237	37,763
Total Business Services	51,342	42,642	21,642	1,095	12,517	0	129,238	164,710
Operations and Maintenance -								
Operations of Buildings Services	169,177	152,277	95,876	176,128	6	4,029	597,493	570,504
Security Services	0	0	1,068	0	0	0	1,068	1,114
Total Operations and Maintenance	169,177	152,277	96,944	176,128	6	4,029	598,561	571,618
Pupil Transportation Services -								
Pupil Transportation Services	163,187	69,395	7,848	62,877	2,489	147,866	453,662	292,875
Support Services - Central -								
Staff/Personnel Services	11,752	8,571	0	0	0	0	20,323	53,780
Non Instructional Technology	0	0	54,000	25,606	0	0	79,606	70,544
Total Support Services - Central	11,752	8,571	54,000	25,606	0	0	99,929	124,324
Support Services - Other -								
Athletics	25,305	7,023	58,964	6,079	2,595	6,388	106,354	97,766
Total Supporting Services	645,944	398,559	305,820	277,689	29,285	158,283	1,815,580	1,738,168
COMMUNITY SERVICES:								
Community Activities	0	0	300	0	0	0	300	258
Total Expenditures	\$ 2,303,214	\$ 1,452,698	\$ 419,876	\$ 329,433	\$ 32,276	\$ 165,059	\$ 4,702,556	\$ 4,706,272

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, 2011 and 2010

REVENUES:	Years Ended June 30,	
	2011	2010
Local Sources -		
Cafeteria sales	\$ 50,436	\$ 46,026
Milk machine	1,648	210
Earnings on investments	20	40
Headstart sales	5,444	5,154
GSRP lunches	2,404	3,166
Other	1,548	2,419
	<hr/>	<hr/>
Total Local Sources	61,500	57,015
State Sources -		
Section 31a At Risk	2,840	2,930
Section 31d School Lunch	8,575	13,007
	<hr/>	<hr/>
Total State Sources	11,415	15,937
Federal Sources -		
National School Lunch Program	152,442	148,632
National School Breakfast Program	57,044	52,609
Fresh Food & Vegetable	13,500	14,563
ARRA Equipment Assistance	0	25,000
Donated commodities - Entitlement	16,900	15,754
Donated commodities - Bonus	160	718
	<hr/>	<hr/>
Total Federal Sources	240,046	257,276
Total Revenues	312,961	330,228
EXPENDITURES:		
Supporting Services -		
Food Service -		
Salaries and wages	85,143	79,244
Employee benefits	66,423	57,100
Purchased services	3,260	9,589
Food and milk	128,774	117,898
USDA Delivery charge	24,015	25,768
Sales tax	223	124
Supplies and other costs	6,296	7,970
Capital outlay	0	27,654
	<hr/>	<hr/>
Total Expenditures	314,134	325,347
NET CHANGE IN FUND BALANCES	(1,173)	4,881
FUND BALANCE - BEGINNING OF YEAR	<hr/>	<hr/>
	17,373	12,492
FUND BALANCE - END OF YEAR	\$ <u>16,200</u>	\$ <u>17,373</u>

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, 2011 and 2010

REVENUES:	Years Ended June 30,	
	2011	2010
Local Sources -		
Current tax levy	\$ 549,239	\$ 557,350
Other taxes	1,601	505
Interest on delinquent taxes	3,358	3,935
Earnings on investments	635	1,953
Total Local Sources	554,833	563,743
State Sources -		
Payment in lieu of taxes	17,549	17,628
Total Revenues	572,382	581,371
EXPENDITURES:		
Debt Service -		
Bond principal	355,000	340,000
interest on bonded debt	241,924	253,824
Paying agent fees	225	225
Taxes paid back	722	760
Total Expenditures	597,871	594,809
NET CHANGE IN FUND BALANCES	(25,489)	(13,438)
FUND BALANCE - BEGINNING OF YEAR	156,620	170,058
FUND BALANCE - END OF YEAR	\$ 131,131	\$ 156,620

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

FIDUCIARY FUND  
STATEMENT OF DUE SCHOOL ORGANIZATIONS  
Years Ended June 30, 2011 and 2010

	June 30,	
	2011	2010
ELEMENTARY -		
Camp	\$ 556	\$ 556
Fines	321	516
Funding Factory	145	174
General Purpose	180	9
MiBLSi	159	562
Playground	892	892
School Spirit Store	1,062	956
School Success	0	62
Student Improvement	618	469
	3,933	4,196
Total Elementary		
HIGH SCHOOL -		
Class of 2010	0	1,856
Class of 2011	12	5,438
Class of 2012	4,889	5,383
Class of 2013	3,434	2,773
Class of 2014	2,880	1,528
Class of 2015	1,059	768
Band	3,449	825
Baseball	450	799
Basketball - Girls	6,721	5,169
Basketball - Boys	381	145
Basketball - Jr High	178	79
Broadcasting	652	705
Cheerleading	2	18
Choir	0	47
Corn Maze	1,560	1,854
Drama	418	194
Flag Corp	0	135
Football	968	1,727
Golf	263	263
Honor Society	1,443	1,351

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

FIDUCIARY FUND  
 STATEMENT OF DUE TO SCHOOL ORGANIZATIONS (CONTINUED)  
Years Ended June 30, 2011 and 2010

	June 30,	
	2011	2010
HIGH SCHOOL (Continued) -		
Interest	\$ 0	\$ 21
Library	431	430
Music Boosters	0	788
Physics	766	914
Pizza Club	366	426
Rentals	990	1,030
Revolving Account	180	680
Shop	583	72
Softball	846	690
Spanish	10	93
Special Ed	93	1,003
Student	1,079	2,037
Student Council	1,933	1,149
Student Improvement	123	132
Track	635	594
Volleyball	2,272	3,484
Youth Community Service	689	688
Yearbook	5,276	3,934
 Total High School	 45,031	 49,222
	\$ 48,964	\$ 53,418

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

DETAIL OF BONDED DEBT  
 2005 REFUNDING BONDS  
June 30, 2011

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>
2011	\$ 0	\$ 0	\$ 114,749	\$ 114,749
2012	365,000	114,749	107,906	587,655
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>\$ 5,560,000</u>	<u>\$ 804,287</u>	<u>\$ 804,287</u>	<u>\$ 7,168,574</u>



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

DETAIL OF BUS NOTE PAYABLE  
June 30, 2011

Security: 2008 77 passenger bus  
Date of Loan: July 20, 2007  
Interest Rate: 4.82%

Date	<u>Payment</u>	<u>Principal</u>	<u>Interest</u>
June 23,2012	\$ <u>14,697</u>	\$ <u>14,021</u>	\$ <u>675</u>

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

DETAIL OF BUS NOTE PAYABLE  
June 30, 2011

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 01,2111	\$ 16,617	\$ 13,291	\$ 3,326
November 01,2112	16,721	13,915	2,806
November 01,2113	16,721	14,569	2,152
November 01,2114	16,722	15,254	1,468
November 01,2115	<u>16,722</u>	<u>15,971</u>	<u>751</u>
	<u>\$ 83,503</u>	<u>\$ 73,000</u>	<u>\$ 10,503</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 19, 2011

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, 2010, which collectively comprise the Hillman Community Schools' basic financial statements and have issued our report thereon dated September 19, 2011. 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**

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.



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Certified Public Accountants, P.C.